

PRICING DESK GUIDE

COMPANION DOCUMENT

This document contains additional reference material that provides supplementary descriptions of the pricing policies and procedures presented in the Pricing Desk Guide, Edition no. 2. It is organized as follows:

I. Supplements to Chapters

The format of the Supplements to Chapters section corresponds to the Pricing Desk Guide's chapters and sections. The information is further organized by topic area. Most of the questions in this section were taken from actual questions from various regions.

II. Examples

The Examples section portrays situations that illustrate how the policy works in actual application. The Supplements to Chapters and Examples sections provide cross-references to each other of corresponding subject matter.

III. Glossary

The Glossary section defines terms used in the pricing guide as well as other commonly used real estate terms. Certain definitions in this document are reprinted with permission from the Appraisal Institute's "The Dictionary of Real Estate Appraisal, Third Edition" © 1993 by the Appraisal Institute. All rights reserved. The Appraisal Institute's initials (AI) follow those definitions derived from its dictionary.

IV. Rent Billing

This section was written by the Office of Financial & Administrative Management Revenue Division (PHR) to provide information on the numerous facets of PBS Rent billing procedures.

This document is a compilation of information and writings from many people both in the Regions as well as Central Office. Also, this document is intended to be ongoing in the sense that as additional questions and topics arise they will be added.

I. SUPPLEMENTS TO CHAPTERS

Chapter 1: Introduction (*See Example 11*)

Chapter 2: Key Pricing Elements

2.1 The Occupancy Agreement (OA) (*See Examples 1a, b, d*)

- Topic: Rent Estimates and Agency Budgets

Question: What is the official policy regarding rents charged by PBS in relation to the agencies' budgeting processes?

Chapter 102-85.160 of the Federal Management Regulation (FMR) explains GSA's policy regarding the rents charged to agencies in relation to their budgets as follows:

"For existing assignments in owned buildings, GSA charges for fully serviced shell Rent, in aggregate, shall not exceed the bureau level budget estimates provided to the customer agencies annually. This provision does not apply to:

- New assignments;
- Changes in current assignments;
- Leased space;
- New tenant improvement amortization;
- Building specific security costs; and
- New amortization of capital expenditures under ROI pricing due to changes in scope of proposed projects or repair and/or replacement of building components"

Although OMB mandates that PBS guarantee the Rent Ests only at the agency / bureau level, PBS will honor the Rent Ests for serviced shell rents at the CBR level.

- Topic: Mandate of Occupancy Agreements

Question: How binding is an OA?

It is as binding as a Memorandum of Understanding or any other document signed between two Federal agencies. In other words, it is not enforceable in court, but it represents the intent of both parties.

2.1.1 Description of Space and Services

2.1.2 Compendium of Clauses

2.1.3 Financial Summary

2.1.4 Signature Page

- j Topic: Payment of Additional TI Costs

Question: If a customer changes requirements, such as space layout plans, and causes PBS to incur additional costs, is the customer liable for the additional cost?

Yes. However, the additional cost may be amortized over the OA term if the additional amount can be accommodated within the TI allowance. Otherwise, the cost recovery vehicle should be a nonrecurring RWA.

2.1.5 Executing OA's: For all PBS Space

Leased Space

- j Topic: Delegations

Question: Do existing leases require OA's?

The Desk Guide states that OA's should be prepared for existing Portfolio leases as well as existing leases that have unusual provisions, which affect Rent. An example of this is a lease in which operation and maintenance responsibility has been delegated to the tenant agency.

2.1.6 General Guidance on Preparing OAs

- j Topic: Leases and Unsigned OA's

Question: What is PBS policy concerning signing leases when an agency wants to occupy GSA-controlled space but refuses to sign an OA?

A customer agency cannot avoid the obligation to budget for occupying space, or the responsibilities inherent in the OA, by refusing to sign an OA for either Federally owned or leased space. In these cases, the project file should document PBS's attempts to involve the agency in creating and signing the OA. If the agency continues to refuse to sign, the Regional Portfolio Manager has the authority to approve the OA, and, in the case of leased space, PBS can proceed with executing the lease.

2.1.7 Amending an OA (*See Example 1d*)

- j Topic: Rent Changes and OA Amendments

Question: Do all rent changes require that an OA be amended?

A number of changes in rent can occur which will not require the OA to be amended. For instance, an amended OA is not necessary for normal escalations such as operating costs, taxes, parking, and joint use costs. An amended OA is also not necessary for adjusting 5-year shell rents or security charge changes as long as the level of security doesn't change. If the space size or building level of security changes, an amended OA is required.

2.2 The Building Shell (*See Examples 1a, b, d*)

2.2.1 The "FireWall" Between Building Shell and Tenant Improvements

- j Topic: Prospectus Dollar Limits

Question: How much flexibility does PBS have regarding the authorized funds for prospectus projects?

For prospectus projects, once the funds are authorized, PBS has to live within the dollar limits. If the tenant agency changes the project scope or its housing plan resulting in a higher project cost, the agency must fund the cost differential. Once a prospectus is authorized, we are required to deliver the project within the approved prospectus amount. We only have flexibility up to the point at which we propose the prospectus to OMB and Congress. After submittal of the prospectus to Congress, the Administrator may approve an escalation of the estimated maximum project cost by an amount not to exceed 10 percent of the project cost. The escalation process involves Capital Improvement Program approval, notice to Congress, and reprogramming of the project. A project cost escalation is to be used only in emergencies and is not regularly used to fund TI's in projects that have cost overruns. The escalation can only be received if substantial need is found and funds are available.

Another, albeit rarely used, alternative is to amend the prospectus. This also involves approval by OMB and Congress, and generally causes substantial delay to the project.

Topic: Carpet and Paint

Question: A tenant refuses to pay for periodic re-carpet and painting of their space. At what level of TI condition will GSA override the tenant and install needed carpet and paint in the tenant's area in order to prevent the building from deteriorating further? Is this option, with or without increasing the rent, GSA's responsibility?

GSA should not “override” the tenant on cyclic painting and carpeting in tenant areas. Paint and carpeting in tenant areas are TI’s, and tenants may choose to replace them as long as they pay for them with reimbursable funds. TI’s do not affect the quality of the base building. In the private sector, tenant spaces are generally gutted for new tenants; therefore, while worn or shabby-looking tenant spaces may be off-putting to a prospective tenant, since the space will be redone for the new tenant, achievable rent will not be affected. It is the responsibility of the landlord to maintain the structural quality of the building, which does not include carpet and paint in tenant areas.

2.2.2 Shell Definition

- j Topic: Local Area Networks (LANs)

Question: What is the policy regarding a tenant’s distribution backboard and conduit for LAN’s?

Distribution networks for LANs, such as conduits and distribution backboards are considered to be tenant improvements due to the wide diversity of configuration. PBS allows tenants to use the distribution backboard in the base building wire closet and the vertical conduit for their LANs.

- j Topic: Shell / TI’s in Single Tenant Floors

Question: Who has the responsibility to upgrade restrooms on single tenant floors?

Restrooms that are required by code, even on single tenant floors, are included as part of the shell and would be upgraded by the building owner, whether a lessor or PBS. On the other hand, private restrooms or additional fixtures or stalls added by a tenant, or at the request of the tenant that are beyond code requirements would be the responsibility of the tenant.

- j Topic: Electrical Power Distribution

Question: In the description of the base building elements, what level of service does the “7 watts per BOMA usable” refer to? Some agencies are having problems with lessors providing electrical requirements.

The 7 watts per BOMA usable is the power capacity for tenant office items only and does not include building support systems such as ceiling lighting and building HVAC. “Convenience” power is for tenant office items such as computers.

2.2.3 Tenant Improvements

- j Topic: Tenant Improvements Upon Departure

Question: Are regions allowed to include restoration clauses for expensive TI's, such as tenant wiring, in the OA's?

PBS policy is to follow commercial practice and allow tenants to abandon their improvements in place and not restore their premises to their former conditions. Although unique tenant build-outs such as television studios may require restoration clauses, generally PBS should not add restoration clauses in OA's.

- j Topic: Unique Build-Out upon Departure

Question: Should an agency that installs unique items such as vaults or steel mesh in walls remove the items upon their vacating the space?

The agency pays for such items only if the OA for the space has a restoration clause that requires the agency to do so. Otherwise, PBS will be responsible.

- j Topic: Raised Access Flooring

Question: The Desk Guide lists raised access flooring as TI's (pg. 14). However, PBS requires it in some new buildings, and its cost greatly reduces the amount of TI's available to the tenants. Also, raised access flooring is becoming a standard requirement. Therefore, shouldn't it be considered part of the building shell?

At this time, raised access flooring is still considered to be part of the tenant improvements. Its cost can be accounted for by increasing the tenant allowance by an amount equal to the cost of the raised access flooring. This will neutralize any concern that we have imposed a requirement but not funded it. In the future, HVAC distribution systems may require raised access flooring as an integral building shell element; however, because the market does not yet confer value for this configuration, PBS does not treat it as part of the building shell.

2.3 Tenant Improvement Allowances

- j Topic: Payment for Future TI's

Question: Can an OA allow an agency to pay for future TI's (say paint and carpet in 5 years) in current years?

No. That would be the equivalent of trying to create within GSA a sinking fund for the future TI's at the individual space assignment level. This is not how the FBF works.

General Component

2.3.1 Tenant Allowances for Warehouses (See Example 12)

Federally Owned Space

- j Topic: Timing of Financial Terms

Question: Since the Office of Portfolio Management sets the amortization rate each spring, what happens if the rate is reset during the negotiation process of an OA?

Once a rate has been used in a preliminary OA, it is not necessary to adjust the rate based on the annual adjustment. However, the financial terms in the preliminary OA are not binding, even if the tenant has signed it. Therefore, whether the rate in the preliminary OA is kept is left to the Region's discretion. However, changing the rate from the one used in a preliminary OA would introduce additional budget volatility for the client and Rent volatility for PBS. Therefore, the general rule is that once PBS has presented one rate to finance TI costs, it is best to stay with that same rate.

2.3.2 Amortization of the Tenant Improvement Allowances (See Examples 1a-d)

Federally Owned Space

- j Topic: Shortening the Amortization Period

Question: What are the guidelines for shortening the amortization period for tenant improvements?

The two rules for shortening the amortization period are: 1) Do not exceed the economic life of the improvements; and 2) do not exceed the term of the OA. There is no other rule, but a caveat is that shortening the amortization period cannot be seen as a backdoor lump sum payment. For typical terms (5 years or more), the amortization period should be at least 12 months. The goal is to give as much flexibility as possible without going afoul of appropriation regulations.

Multiple Amortization Terms (See Examples 4, 14)

2.3.3 Application of the Tenant Improvement Allowance (See Example 5)

- j Topic: Services Covered

Question: Does the General Component of the tenant allowance cover design, M&I and construction contingencies?

It depends on the type of occupancy. In initial and backfill occupancies (both owned and leased buildings), space planning and PBS employee construction management costs are not charged against the allowance. However, contract Contract Management costs are charged against the TI allowance. In continuing occupancies, all hard and soft costs are charges against the allowance. (PBS generally does not provide an allowance for post initial occupancies.)

- j Topic: Post Initial TI's

Question: The US Marshal's Service wants to add a sallyport and private elevator to a courthouse. Is this considered to be a new occupancy, and are these enhancements part of the building shell or TI's? How would they be priced and funded, and who would have maintenance responsibility?

Tenant-driven enhancements to the building shell are considered to be tenant improvements, not shell elements. As stated in Chapter 3.2.2, customer-requested space enhancements after initial occupancy are the funding responsibility of the customer agency. The agency pays for the improvements with a lump sum RWA. Chapter 3.2.2 also states that the agency may be responsible for any increased costs of the maintenance of the enhancements.

- j Systems Furniture

Question: Is it possible for an agency to amortize the cost of their systems furniture into their TI payments?

No. Systems furniture is personal property and therefore cannot be included in the TI allowance. However, built-ins such as millwork reception desks could be included.

- j Personal Furniture Exception

Question: Has PBS agreed to fund certain furniture for the Courts as TI's? If so, who has the responsibility to maintain and repair them?

The pricing policy's only exception that allows personal property such as furniture to be charged against the allowance is furniture for courtrooms. This exception allows the Regions to use the allowance to provide items such as lecterns and tables that match the wood used in built-ins such as the jury boxes, railings, witness stands, and audience pews. However, the tenant has the obligation to maintain, repair, and / or recondition the furniture. PBS recovers only the cost of obtaining the furniture in the rent, not its maintenance and repair.

- j Topic: Furniture Exception and Budget Activities

Question: Do the funds for the courtroom furniture exception have to come from BA 61?

There are multiple answers. If the project is prospectus level, BA 55 or BA 51 funds are used, if it is under prospectus level BA 54 funds are used. If the project is a lease construct courthouse, we use BA 53. (The lessor provides the tenant allowance and we repay him in the lease payments.)

2.3.4 Lump Sum Payment Responsibilities and Options for Tenant Improvements (See Examples 1e, 6 - 9, 15)

- j Topic: Payment Limits

Question: What is the limit of lump sum RWA dollars that an agency can spend on TI's?

There is no limit on the amount a tenant agency can spend on its own RWA lump sum for TI's. Regions have discretion to depart from the TI formula and can set the allowance in consonance with the standard of providing "functional" space. Agencies may be requested to certify that their lump sum contribution is exempt from the prospectus requirement.

- j Topic: Lump Sum Payments in Second Generation Space

Question: Is a tenant agency allowed to waive the general allowance in relet / backfill space?

The tenant can only waive the general component of the TI allowance if the existing improvements will be used, with or without modification. "Modification" is not defined in order to give the Regions wide discretion, but if the space is being gutted, then the customer is not using the existing improvements and cannot waive the general allowance. GSA is required to provide finished space to the agencies, not just space in shell condition.

- j Topic: Payments of Lowered Allowance

Question: An agency that is moving to second-generation space wants to lower its TI allowance. Can the agency pay for the lowered allowance by RWA?

No. The agency must pay for any TI allowance in the Rent. However, the agency can waive the TI allowance and pay for TI costs outside of the allowance by RWA. (The agency can only waive the entire TI allowance if it is going to use the existing TIs "as is".) The nuance in this situation is that because the agency must pay for any TI allowance in Rent, in order for them to pay by lump sum, they must waive the allowance so they can pay by RWA. This nuance is the result of PBS complying with appropriations laws.

2.3.5 Changing or Appealing an Agency Customization Tier (See Example 1b)

2.4 ANSI/BOMA Space Measurement Standard

- j Topic: Definition of Rentable Space

Question: Does rentable square footage include parking, joint use, unmarketable, and vacant space?

Parking is not included in the rentable number. Joint use and vacant space are included in both the usable and rentable numbers. "Unmarketable space" is not addressed in the ANSI/BOMA nomenclature, but is used by GSA for space assignment purposes. "Unmarketable space" includes construction area and major vertical penetrations, which are not included in the rentable area.

2.4.1 ANSI/BOMA Standard Impact

Tenant-driven Slab Penetrations

- j Topic: Double Height Space - no slab penetration

Question: Some Federally owned buildings (i.e., USPS mailroom areas or courtrooms) have double height space, which constitutes a penetration of the slab. Is the area of double height space, which represents a break in the slab, counted as a vertical penetration built for the private use of the tenant?

In this example the entire floor is the same height. Because there is no slab penetration, only the square footage of the double height space on the base floor is assigned to the tenant.

- j Topic: Double Height Space - slab penetration (Tenant Floor Cut, TFC)

Question: What is the policy for base rent for structurally changed areas such as two-story auditoriums and courtrooms that penetrate the slab?

If the assigned space penetrates the slab it is considered Tenant Floor Cut (TFC) space, and the upper area that penetrates the slab is assigned to the tenant as usable square feet. As an example, a courtroom that contains 2,500 usable square feet would have an additional 2,500 usable square feet assigned as TFC. The space is treated like all other usable and therefore is added to floor and building usable and rentable area. TFC space is treated like any other space; it gets a TI allowance and is charged operating, joint use, and security costs.

- j Topic: Atriums

Question: What rent rate is applied to atriums, especially when they are double height?

The height of the atrium is irrelevant; only the footprint of the atrium is considered building common and is included in the rentable area. The upper levels of the atrium are classified as vertical penetrations and are included in the unmarketable space category.

Circulation Corridors Within a Tenant's Exclusive Control

- j Topic: USPS Lookout Galleries

Question: Are the lookout galleries from which the Postal Inspection service observes mail sorters and carriers considered to be usable or rentable space?

Galleries count in both rentable and usable areas. The only way they would count in rentable and not in usable is if they are common areas. Since USPS lookout galleries are accessible by only one tenant, they are part of the tenant usable area.

Implementation of the ANSI/BOMA Standard and Rent Billings

- j Topic: Loading Docks

Question: A tenant uses a common use interior loading dock. Is the dock considered to be usable and / or rentable space?

The dock is considered to be building common area and is therefore rentable area.

If the tenant has a dedicated loading dock, it is considered to be part of the tenant's usable area. (See BOMA measurement standard Z65.1-1996.)

- j Topic: Re-measurement

Question: If re-measurement results in a change in the rentable and usable areas of greater than 2 percent, what is the timing of recalculating the change in the rent bill, and how is the change shown in the rent bill?

The square footage numbers should be changed in STAR as soon as possible, and the Rent Est will calculate the correct Rent for the first budget year in which the change in Rent can take effect. Customer agencies should be provided with enough time to budget for any increases due to re-measurement, which means the change in Rent cannot take effect before the first budget year for which we can give notice via the Rent Est. A single line billing adjustment is necessary to intercept the change until the budget year in which the change first takes effect.

- j Topic: Minor Space Changes

Question: If the total rentable square foot change resulting from re-measurement is 2% or less, what is to be kept the same, the rent rate per square foot or the total rent that the tenant agency pays?

The intent of PBS's pricing policy is to maintain as much stability in rent payments for the tenant agencies as possible. Therefore, if the square foot change resulting from re-measurement is 2% or less, the rent the agency pays does not change until the OA term expires. Consequently, the region should recalculate the rental rate based on the change in the R/U so the agency's rent does not change.

Chapter 3: Pricing Conventions and Determining Rent

3.1 Building Classes (See Example 12)

- j Topic: Blended Rent Rates

Question: What is the pricing policy for multi-use buildings?

Generally, office rates can only be charged in buildings in which the dominant type of space is office. However, in some hybrid cases PBS can charge a blended rate at the CBR level in precise proportion to the square foot ratio of each use. For instance, the Rent for a building with a 50/50 split between office and warehouse uses would be a blend of their respective rental rates based on their pro rata share of the rentable area.

General Use (See Example 11)

- j Topic: Storage Space Rent

Question: How is storage space in office buildings charged?

According to the Pricing Desk Guide, there is no "storage" rental rate applied to storage space in office buildings. If the space is located on an above-grade floor and is available for storage or any other build-out the tenant wishes, it is designated as office and is charged the office shell rate in unfinished space and the "as is" rate in relet space. If the space is located in the basement, it may be treated as either office or storage; therefore, an appropriate rent can be negotiated. If the space is located in the basement and is segregated for individual tenant access, it is classified as usable space.

3.2 Pricing of Rent

- j Topic: Outleasing

Question: Can PBS attach additional fees to outlease contracts for Security or Joint Use space?

PBS does not attach additional fees or charges to outleases. Whatever contract rent is negotiated is the only income that PBS will receive from the outlease. Additionally, PBS only charges what the market will bear. Therefore, if PBS provides services that are not valued in the private market, then we are not compensated for these services.

3.2.1 Shell Rent (See Examples 3, 10)

Federally Owned Space

- j Topic: Periodic Paint & Re-carpet in Federally Owned Buildings

Question: Who is responsible for periodic paint and re-carpet in common and tenant areas in Federally owned space?

PBS will paint and re-carpet common areas on an as-needed basis under its own funding responsibility; however, tenant areas are done reimbursably, or in return for the tenant's acceptance of a new TI charge in Rent.

Leased Space

- j Topic: Periodic Repaint and Recarpeting in Leased Buildings

Question: Who provides the periodic paint and re-carpet in leased buildings?

PBS policy is to include a provision in the lease for periodic repaint and recarpeting, with the expense to be borne by the lessor, only when requested by the tenant agency.

Rent Concessions

- j Topic: Rent Concessions and TI's

Question: Is it permissible to give an agency free or reduced rent in order for them to use that money to fund TI's?

Yes, with conditions. The agency can only pay for TI's, not shell elements, with the money. Also, if this is an initial occupancy, and not relet space, then they can only use the money to pay for TI's above the general component of the allowance. However, if it is a continuing occupancy and the tenant will use existing TI's, then they may use the money to fund any or all of their TI's.

Structure of Rent (See Examples 3, 10)

• j Topic: Non-Market Stepped Rents in Leases

Assumption: An agency is 7 years into a 20-year lease that has \$22/rsf for Years 1-10 and \$7/rsf for Years 11-20, the latter of which is below market rent. The current OMB discount rate (in Year 7) is 6%.

Question: How would the rent be converted to a levelized basis?

-Using OMB's discount rate, solve for the PV of the rent payment already made and solve for the levelized rent and PV of the remaining rent payments to be made. Add the two PV's to calculate the PV of the stepped rents PBS pays the lessor over 20 years. The steps are as follows:

1. Use the discount rate and solve for the PV of the payments already made. (7 N, 6%, \$22 PMT = \$122.81 PV)
2. Solve for the level payment over the remaining 13 years. ((3 N, 6%, Yrs 8-10 \$22 PMT) + (10 N, 6%, Yrs 11-20 \$7 PMT) = \$11.53 levelized rent Yrs 8-20 and \$102.06 PV in Yr 8)
3. Solve for PV of levelized rent payments back to Yr 1 (7 N, 6%, \$102.06 FV = \$67.87 PV)
4. Add the PV of the payments already made to the PV of the levelized remaining payments to calculate the PV of the levelized rent (\$122.81 + \$67.87 = \$190.69). \$190.69 is the PV of the entire 20-year period.

3.2.2 Tenant Improvement (TI) Costs

Federally Owned Space

• j Topic: Asbestos

Question: Asbestos is located in the space between ceiling tiles and the slab. The asbestos was sealed and remains safe as long as it is undisturbed. However, the client wants to remodel his space, which requires disturbing the asbestos. This increases the construction costs beyond the level originally estimated for remodeling the space. Who is responsible for the added costs for mitigation of the asbestos, GSA or the client?

If the action is a tenant-driven alteration or space change of the existing space they occupy, the tenant pays for all costs.

If the action is a combination of alteration of existing space and expansion into new space, then GSA and the client share the cost. The amount each pays of the mitigation cost is directly proportional to the area of expansion (GSA's cost) and alteration of existing space (client cost).

If the action is for a new tenant in the space or the space is all expansion, GSA must pay for the entire mitigation cost. The principle is that a landlord covers shell costs for a new tenant or for expansions. If it is necessary to demolish improvements, remediate hazardous waste, or ready the space for a new tenant, the landlord covers these costs.

3.2.3 Operating Costs

- j Topic: Rent Estimates

Question: An agency protests paying increased utility costs in a leased property. They have not budgeted for the increases and have requested that the utility cost increases be extended to a future FY so they can budget for them. Can they do this?

All operating costs that PBS pays to the lessor are passed through to the customer agency. The agency has the responsibility to pay for increased operating costs in the year incurred, and PBS is not required to delay payment to a future FY.

- j Topic: Operating Services for Special Equipment

Question: Who pays for the installation of special equipment and who pays for its operation and maintenance?

Installation of special equipment (fume hoods, private elevators) can be funded in the combined TI allowance; however, the services, maintenance, and utilities to run the equipment must be funded by the tenant if the overall cost to maintain the agency's space exceeds the operating cost component in the Rent Estimate. In this case, the agency pays, currently by RWA, for the portion of the operating costs that exceeds the appraisal-based cost as a reimbursable expense.

- j Topic: Operating Costs in Federally Owned Space

Question: Who is responsible for maintenance of special equipment or fixtures that have been installed?

PBS policy is to request additional reimbursement for tenant operating costs only when the overall cost to maintain the tenant's space exceeds the operating cost component of the rent that PBS is already billing. Any offsetting effects of the cost avoidance or any additional rent received must be considered before PBS requires additional operating cost reimbursement.

- j Topic: RWA Overruns

Question: When a significant increase in costs above a projected recurring RWA operating expense (utilities or guard service) occurs, can the RWA be amended to cover the higher costs?

Yes. The Type R-RWA or Recurring RWA needs to be reviewed and updated to reflect increased costs.

- j Topic: Standard of Service

Question: What is the definition of a typical operation of an office building for a 5-day workweek? For what services does PBS require additional reimbursement?

Please refer to “The Customer Guide to Real Property Operations” for the definition of a typical workweek. Its website is:

www.gsa.gov/attachments/GSA_PUBLICATIONS/pub/CustomerGuidebookmarkedversion.pdf

Services provided that exceed the defined standards require additional reimbursement if they generate additional overall operating costs for PBS.

- j Topic: Payment of Normal Operating Costs with RWA vs. Rent

Question: Can an agency pay for normal operating costs with an RWA or are they required to pay in the Rent?

Paying with an RWA could be considered an augmentation of GSA's appropriation and therefore would be illegal. To avoid the illegality, the agency would have to specify on the RWA document that the payment is to be billed by PBS as Rent. (By so doing, however, they have just negated any justification for paying outside of the STAR bill.)

Federally Owned Space

- j Topic: Daytime Cleaning

Question: Is daytime cleaning always considered to be an above standard service?

The appraisal-generated operating cost base for a building classified as general use is based on services and utilities that are typical for the operation of a 5-day workweek in an office building. The appraisals for Government-owned owned space are assessed using the prevailing practice in the local market. Therefore, if the local market dictates nighttime cleaning standards, the extra costs associated with daytime cleaning are considered to be above standard. However, PBS requests additional reimbursement only if the overall operating cost of the building exceeds the appraisal-based cost. In other words, if the cleaning costs are higher than standard, but the overall cost of operating the building is equal to or less than the appraised cost base; no additional reimbursement would be requested.

- j Topic: Timing of Escalations

Issue: The Desk Guide states that operating expenses are escalated annually by CBRs on the anniversary dates of the CBRs. However, in order to measure performance, some Regions are escalating operating costs at the building level (recovery rates) each October and not at the anniversary date of each CBR.

Escalating operating expenses at the building level each October can result in adjusting the operating cost portion of a tenant's rent as soon as one month after an OA is effective if the tenant occupies the space in September. Therefore, the policy is to escalate operating expenses at the CBR level on the anniversary date of the CBR. To do otherwise is counter to the policy.

- j Topic: Cycle of Appraisals

Question: Is there any flexibility to the policy of appraising properties in 5-year cycles?

Assets are to be appraised at a minimum of 5-year intervals. OA's may have terms that exceed five years, but their shell rents are priced at level 5-year terms. Conversely, Regions have the option to shorten the cycles due to rapid changes in the market or significant agency costs escalations. However, if GSA signs an OA with a tenant that has a 5-year term, the rental rate is level for the five years, even if rent appraisals are done annually.

Leased Space

- j Topic: Above Standard Services

Question: How are above standard operating services handled in leased space?

Costs for enhanced operating expenses and special equipment operation should be included in the lease contract. As with Federally owned space, any costs for premium services above what is accepted in the market or special equipment maintenance is paid to GSA as a reimbursable payment.

3.2.4 Real Estate Taxes

Leased Space

- j Topic: Tax Escalations in Leases

Question: How are tax escalations that are received from a Lessor processed?

Tax escalations are paid by lump sum.

- j Topic: Taxes in Rent

Question: Are real estate taxes charged to the tenant improvements?

No.

- j Topic: Taxes During Fluctuating Occupancy

Question: What is the policy for distributing real estate taxes when there is fluctuating occupancy during a tax period?

Prorate the tax based on the percentage of the tenants' RSF to the total RSF multiplied by the term of occupancy during that year. PBS picks up the pro rata share of vacant space.

3.2.5 GSA-Installed (Leasehold) Improvements

3.2.6 Security Charges (See Example 4)

- j Topic: Required Security

Question: What if a tenant does not want GSA security?

PBS has certain minimum security and law enforcement functions that it must provide by law. These cannot be waived, although in rare cases, agencies are delegated authority to provide some or all of these services themselves.

Building Specific Security Charge

- j Topic: Federal Occupancy

Question: How are building specific security charges distributed in multi-tenant buildings?

Building specific security charges are distributed over all Federal users by building in direct proportion to each customer agency's percentage of Federal occupancy of the building. The distribution of building specific security charges is not readjusted for vacancy. PBS absorbs the cost of security for vacant space.

Building-Specific Operating Expenses

- j Topic: Variable Costs

Question: Do changes in building specific security charges require amendments to the OA's?

As long as the level of building-specific security services due to the vulnerability rating does not change, the fluctuating security costs due to building specific operating costs or the amortization of

capital items do not require an amendment to the OA. Although PBS may estimate security costs in the Rent Estimates, it is not bound by the estimates. Bills should reflect the actual costs incurred.

Amortized Capital Costs (See Example 4)

- j Topic: Capital Items:

Question: Can PBS charge for security capital costs that were not included in the Rent Ests?

PBS can charge for the amortization of building specific capital costs for security items in the current FY as long as the building security level has not changed. This is allowed even if the items were not in the Rent Estimates for that year. However, PBS cannot collect for missed billings in prior years.

3.2.7 Extra Services

- j Topic: Normal vs. Extra Services

Question: Is there a difference in how PBS is paid for provision of extra services compared to normal services?

PBS may only be paid by reimbursable payment for “above standard” services. Normal operating costs must be paid in the Rent, not a separate RWA.

- j Topic: Payment for Extra Services

Question: How are above-standard services paid in owned and leased space?

Payment for above-standard operating costs must be made through an RWA for both owned and leased space. This applies to leased space even when the extra service is included into the lease contract. PBS should include building standard expenses only in the category for which agencies receive appropriations to pay Rent. For space in Federally owned buildings, additional reimbursement is requested only when the total operating expenses exceed the appraised rate.

- j Topic: Daytime Cleaning:

Major points to remember about daytime cleaning as an above-standard service are:

- ☐ Daytime cleaning and overtime utilities are paid by RWA if local market practice dictates that these are above standard services. The services also have to exceed the appraised operating costs for the asset.
- ☐ If a premium service provided by PBS is not being included in the lessor's rent, use an RWA to bill the tenant and base the overhead fee on the “sliding scale”.

- Steps for daytime cleaning:
 1. ☐ In the lease file in STAR, input in the full payment to the lessor including the cleaning charges. STAR will automatically calculate recovery rates based on the lease and will automatically withdraw the funds from BA 53.
 2. ☐ However, the client rates that are listed in the OA are what should be charged. Therefore, enter the client rates from the OA into STAR in order to override the recovery rates that were automatically calculated.
 3. ☐ The RWA should be processed to collect the funds and reimburse BA 53. (Use an "R" type RWA.)
 4. ☐ It is improper for an agency to pay for reimbursable services in the Rent payment. However, eventually STAR will allow the RWA charge to be placed on the STAR bill rather than in a separate RWA document. The payment will still be by RWA, but will show up in the STAR bill.

- j Topic: STAR 6.0:

STAR 6.0 will show four totals on the bill:

- j Rental payments to PBS
- j Communications, utilities, miscellaneous charges
- j RWA's
- j Operations

3.2.8 Parking

- j Topic: Security Charges for Parking

Question: If a parking garage is part of a facility, can the security costs for the garage be included in the building specific security charge?

Ideally, billing for parking security costs should have the flexibility to be done on a pro rated basis using either the number of parking spaces assigned to the tenants or the square feet of parking area used by the tenants. Currently, STAR can only bill for security of parking areas by square feet. However, parking areas are measured by the number of spaces. STAR would need to be amended to allow for charging for parking security based on the number of parking spaces before PBS can collect for these charges.

3.2.9 Rent Charges for Other Space

- j Topic: Outleasing Revenues

Question: Does PBS keep the revenue from outleasing space under the Federal Property and Administrative Services Act, or does it just recover costs?

For outleases in Federally-owned buildings in which are not covered by either the National Historic Preservation Act or the Cooperative Use Act, PBS keeps the amount of revenue necessary to cover direct expenses. For outleases under the Cooperative Use Act and Section 111 of the National

Historic Preservation Act, all revenues stay in the Federal Building Fund (Fund 192). The amount deposited in Fund 192 is designated on an Outleasing Information Sheet, when outleases are forwarded to the Fort Worth Regional Finance Division.

For outleases in leased space, PBS keeps an amount equal to the total expenses incurred, including base lease cost, services provided, a portion of the real estate taxes, any services not included in the lease, and a pro rata share of the administrative expenses (fully loaded).

3.2.10 PBS Fee (See Examples 5-9)

Lease Space

- j Topic: Calculation of 8% Fee

Question: Should the PBS fee be calculated before or after the agency's bill is adjusted for the Operations Delegation Credit?

The 8% fee should be calculated on the lease's entire contracted annual payment amount as well as all operating costs provided by GSA. We do not assess the 8% fee on the services outside the lease (e.g. cleaning, electricity) for which the tenant / delegatee agency is paying directly. However, any service that PBS provides, even if outside the lease, that the agency pays for through Rent is charged the 8 percent fee.

- j Topic: Escalations and the Fee

Question: Should the 8% fee be recalculated due to tax, operating cost, and CPI escalations?

Yes. The 8% fee is calculated and billed each year based on the contract rent for that year, including escalations in operating expenses and rent steps such as CPI. The 8% fee is not applied to real estate tax escalations.

- j Topic: Expansions

Question: Should we charge a full fee for the expansion of existing leases?

Yes.

Space Planning

- j Topic: Funding Responsibilities

Question: Who is responsible for funding design costs in owned and leased space?

For initial occupancy, space planning services (Design Intent Drawings) up to Construction Documents is PBS's responsibility to fund. PBS recovers this cost through shell rent for assignments in Federally owned buildings and by the 8% fee for assignments in leased space. An initial submission plus two on-board reviews are included. An extra fee would be required for additional space planning services. For initial occupancy, the tenant is responsible for funding design from Construction Documents forward. For post initial and continuing occupancies the agency pays for all design costs.

- j Topic: Payment for Space Planning

Question: Does the appraised shell rate in Government-owned owned space include a dollar amount adequate to cover space planning costs?

Space planning is in the 4% fee for Government-owned owned space and the 8% fee for leased space. In leased space, there should be an extra charge only if the tenant wants additional changes/revisions/re-do's beyond the scope of the base space planning work. In these cases, the tenant can use the TI allowance. PBS needs to ensure that the appraisers understand the full list of services that PBS provides for the shell rate or 8% fee.

Appraisals

- j Topic Appraisal Costs

Question: Who pays for appraisals?

When an agency requires an appraised value, the cost is covered by an RWA.

Environmental Studies

Federally Owned Space

- j Topic: Payment of Studies

Question: How are environmental studies funded?

Phase I and II studies are services that are done as part of the 4% management fee in initial occupancies.

Leased Space

- j Topic: Payment of Studies

Question: How are environmental studies funded?

The Lessor pays for Phase I and II studies. They are not included as services provided as part of the 8 percent fee.

Post Award Services

- j Topic: Lease Administration Services

Question: What are the lease administration services offered by PBS?

PBS will administer lease contracts, including processing taxes, step rents and operating cost data. Additionally, PBS will initiate and make contract changes, enforce lease terms and conditions, pay rent to building owners, and conduct program oversight.

Project Management

- j Topic: Deliverables

Question: What project management services are provided by PBS and how are we compensated for these services?

For tenant improvements funded via the tenant improvement allowance, PBS provides the project management services listed below at no additional cost to the tenant. PBS is compensated for these services through the shell rent for assignments in Federally owned buildings and by the 8% fee in leased space. For tenant improvements funded via Reimbursable Work Authorization (RWA), a 4% project management fee plus the sliding scale overhead fee is applied to the total cost of the tenant improvements.

- j Schedule development, review and enforcement
- j Placement and administration of design, construction, and construction management contracts
- j Descoping
- j Cost estimation
- j Price negotiation of contracts
- j Oversight of A/E's efforts

- j Progress and final inspections
- j Project cost reconciliation
- j Enforcement of punchlist
- j Space measurement

The Separate 4 Percent Management Fee (See Examples 5–9)

- j Topic: Fee for RWA's

Question: If an agency elects to pay the customization portion of their TI allowance in leased space by RWA, should the 8% fee include the customization portion or should it only be applied to the total annual lease payment?

If an agency elects to drop the customization component of the allowance and pay lump sum, then they have elected to waive this portion of the allowance and the lump sum is not part of the allowance. Therefore, it is not subject to the 8% fee, but any work done in excess of the allowance is subject to the 4% management fee and the sliding scale processing fee.

3.2.11 Joint Use Charges

Topic: Classification of Joint Use Space

Question: What if the amount of joint use space changes due to an outgoing tenant returning assigned parking spaces? Would the spaces be added to the joint use space?

Regions should be judicious in their designation of joint use space. For instance, the parking spaces returned by an outgoing tenant won't automatically transfer to joint use. Generally, very few spaces are public parking and can be classified as joint use. Instead, the spaces should be listed as vacant if not assigned to an agency.

Joint Use User Base

- j Topic: Square Foot Changes

Question: If JU changes by increasing or decreasing the square footage, do all clients need new OA's?

Yes. Any inventory change to the space for one client or joint use space that affects all clients requires a new OA.

- j Topic: Distribution of Charges

Question: What if tenants from other buildings use the JU space in a building?

Pricing policy allows the charges for joint use, such as child care centers, to be distributed over a wider base than just the building that houses the facility. However, at this time, the wider distribution has to be entered manually into STAR. Due to the current limitations of STAR, expanding the base is not a requirement except for joint use space located in freestanding buildings.

- Topic: Bills

Question: Where are the FPS charges included in the bill?

The FPS portion for JU is calculated within the FPS line items. The FPS square foot figures add up to the JU RSF + the Shell RSF. PBS charges for the client's prorata share of FPS charges by adding the JU and shell RSF together and applying it under the FPS line items on the Rent bill.

- j Topic: Market Rates

Question: The JU rate does not appear to recover the true market value of the space and all of its amenities. Are there any plans to look at a separate appraisal of JU space?

No. Rent for joint use space is the shell rate plus TI's, operating expenses and security. Since the private sector does not have a space type that is comparable to our joint use, it is difficult to determine its market value. The Common Area Maintenance (CAM) charge that is common in the private sector would not include facilities such as childcare centers, credit unions and cafeterias. Normally these would be considered tenant spaces and the tenants would be charged Rent directly. The other tenants would not have to carry the costs for these facilities.j

Stability of Joint Use Charges

- j Topic: Calculations of JU Charges

Question: How does the current pricing policy affect the volatility of JU charges?

In the past, our clients' Joint Use (JU) share would fluctuate up and down based on the client's prorata share of all occupied space. Under Pricing, JU space assignments are calculated based on the percent of all available rentable space including vacancy, i.e., PBS will not reallocate joint use charges in the event some portion of the total amount of space assigned to Federal use becomes vacant. This should limit some of the past volatility.

Joint Use Space & STAR & Rent Bill

- j Topic: JU Security Charge

Question: The Desk Guide states security is to be included as a component cost of the JU charge. However, both the Rent Est and Rent bills include JU square footage in the calculation of building specific security. Isn't this double charging for the security charge?

While the Rent Est picks up the security charge for JU space, STAR does not; therefore, it must be included as a component of the JU charge.

Federally Owned Space

- j Topic: Calculation of the rate for JU Space

Question: How is the rate for JU space calculated for billing?

Joint Use for Federal space is billed by the following calculations:

Multiply General TI construction cost estimate (currently \$31.92) by a Tier factor of 1.3 (30% increase). Multiply the result by the local construction factor that is generated in the OA tool. Amortize the result over 10 years at the PBS borrowing rate (currently at 4.985%). Add the result to the "shell" rate derived from an appraisal, as well as to operating costs, and security charges to derive the total joint use cost.

Example:

A building in Washington D.C. has 5,000 usable square feet of joint use space and has a Rentable/Usable (R/U) factor of 1.15.

Shell rate:	\$20.00 per USF
Operating Costs:	<u>\$ 5.00 per USF</u>
Total	\$25.00 per USF

To calculate the estimated TI's, take $\$31.92 \times 1.3 \times 1$ (Local Cost Multiplier for D.C) = \$41.50. This number is amortized over 10 years with 12 payments per year at the current (2001) interest rate of 4.985%. That resulting number is \$0.44. per month $\times 12$ payments per year = \$5.28 per usable square foot.

Add that number to:

Total	\$25.00 per USF
Add on	<u>\$ 5.28 per USF</u>
Joint Use Rate	\$30.28 per USF

Convert it to rentable: $\$30.28 / 1.15 \text{ R/U factor} = \26.33 per RSF and then prorate to the agencies.

*Note that joint use space is included in the basic and building specific security calculations on Line 7 of the Rent bill.

3.2.12 Charges for Integrated Services

Chapter 4: Pricing the Most Common Occupancies

4.1 New Occupancies

Federally Owned Space

- j Topic: Free rent / Shell vs. Expenses

Question: When free rent is given as a concession, does it pertain only to shell rent, or does it also include other costs such as operating expenses?

Free rent can pertain to shell rent alone or can pertain to shell rent plus other expenses. When shell rent is waived for a period otherwise known as "free rent", it generally is not collected in any future period; however, in some markets it is "deferred rent" and is collected later in the rent term. On the other hand, any expenses (operating expenses, amortization of tenant improvements, joint use charges, security and parking costs) that are deferred over a period should be recouped after the deferred rent period is over. The recovery of any deferred rent or expenses is not to be done as a dollar-for-dollar reimbursement; however, generally the rent rate over the ensuing period is increased to cover the expenses incurred during the free rent period.

Leased Space *(See Example 15)*

New Occupancies and Expansions

- j Topic: Rent Ests and Expansions

Question: Do prior Rent Est commitments apply when an agency requests an expansion to existing space? Or would the new market rent apply to the entire assignment including the portion that the agency currently occupies?

The Pricing Guide states that for expansions, regions can either amend the existing OA or create a new OA for the expansion space. In either case, the Rent Est of the existing OA is honored. In cases

in which the OA is amended, the new market rate would be applied to the expansion space and would be blended with the Rent on the existing space to arrive at a composite Rent rate. In cases in which a new OA is created for the expansion space, the rates would not be blended.

4.2 Continuing Occupancies

Continuing Occupancy in Federally-Owned Space

- j Topic: Paint and Re-carpet

Question: Will PBS fund space refurbishment such as painting and re-carpeting for new OA's for continuing occupancies?

At the beginning of an OA for continuing occupancy in Federally owned space, PBS will make every effort to fund carpet and paint if funds are available within the BA 54 budget and then amortize into Rent with the approval of the Regional Portfolio Director.

Appraisals and Continuing Occupancies

- j Topic: Rent Ests and CBR's

Question: Should the directions from OMB to not exceed the Rent Ests at the bureau level also apply to the CBR level?

The Rent Est caps will apply at the CBR level as follows:

- Only continuing occupancies in owned buildings and portfolio leases are affected.
- The appraised rental rate, per the appropriate Appraisal Table, that was used in the Rent Est for a CBR will be used for its continuing occupancy. The Appraisal Tables are used because the Rent Est numbers are blended due to CBR expiration dates falling throughout a fiscal year. Care will have to be taken to ensure that the correct appraised rate from the Appraisal Table is used.
- Only appraised rates for shell rent and operating expenses are included in the promise not to exceed the Rent Est. Charges for tenant improvements, security, and square foot changes are excluded.
- The following are also excluded: all assignments in leased buildings (except portfolio leases) and in USPS buildings; and all new assignments and expansion space in owned buildings (and portfolio leases).

4.3 Backfill Occupancies

Chapter 5: Move Policy

5.1 PBS-Installed Consolidations

5.2 R&A Swing Space

Topic: Renovations and Moving Costs

Question: If PBS's schedule to renovate a building coincides with the expiration date of the tenant's CBR, who pays for the tenants moving costs?

The tenant pays for the move; however, PBS should inform the tenant of the move far enough in advance to prompt them to budget for the action.

5.3 OAs and Moves

5.4 Definition of a Forcing Agency

• j Topic: Hierarchy of Tenants

Question: Is there a hierarchy of tenants in owned buildings? Who decides if an agency can force another agency to move?

No hierarchy is mandated in the Pricing Desk Guide. PBS would examine the request of the forcing agency in light of the impact on both agencies as well as on PBS's portfolio of owned buildings. PBS would negotiate with both agencies to reach a solution.

5.5 Funding Responsibilities of a Forcing Agency (See Example 13)

• j Topic: TI's and Depreciation

Question: A displaced tenant's TI's includes wire mesh in the walls. They believe that because the wire mesh will never depreciate they should be compensated for more than just the unamortized portion of their TI's.

The agency is not compensated in this case. When an agency is forced out or displaced, they are only refunded the undepreciated value of any lump sum payment that they made for the initial TI's. The calculation is based on a straight-line depreciation of the lump sum payment and does not

account for materials that do not physically depreciate. Since TI's are generally gutted for a new tenant, physical depreciation is irrelevant for this purpose.

Topic: Timing of Rent

Question: If Agency A displaces Agency B, when does Agency A start paying Rent? Immediately? After fit out?

Question: Does Agency A take over Agency B's Rent or pay the new appraised Rent?

The goal is to prevent PBS from losing money due to Agency A's action. Agency A will pay the appraised rent after the TI's are completed in its new space. However, they will also pay Agency B's old rent during the period between Agency B's vacating the space and Agency A's move in.

Topic: Method of Payment

Question: Can the forcing agency pay for its moving costs and the moving costs of the displaced agency through amortization in its Rent?

No. Moving costs are not to be blended with Rent payments. The Rent bill is to reflect approximate equivalent commercial rates for comparable space and services, which does not include moving costs of the tenant. The moving costs should be funded with an RWA.

• j Topic: Operating Expenses and TI's

Question: Is the forcing agency responsible for any increase in operating costs and / or TI's that the displaced agency incurs at its new location?

The forcing agency is responsible for the increase in operating expenses (as well as increased shell rent, real estate taxes and the PBS fee) for a period of time that allows the displaced agency to budget for the increased expenses. The displaced agency has to shoulder the cost of its own TI's, otherwise the forcing agency would be placed at risk to pay for higher level finishes (at least for the first 18 months) than the displaced agency had originally. The forcing agency pays for disassembly and reinstallation of the displaced agency's system furniture. They may also pay for minor parts due to the configuration the displaced agency's new space. However, the forcing agency will not pay for elements that upgrade the displaced agency's space and for which they would pay if they weren't moving.

5.6 Double Rent in the Event of Tenant Agency Caused Delay

5.7 PBS or Lessor Caused Delays

Chapter 6: Customer Rights and Options

6.1 Return of Space (See Examples 1c, 3)

Procedures for the Return of Space

Topic: Payment for TI's of Returned Space

Question: A tenant in an owned building wants to vacate a portion of its space three years prior to the CBR expiration. Can the tenant pay for the balance owed for the TI's of the vacated portion by amortizing it into the Rent for the remaining portion that they continue to occupy?

No. Agencies returning space must pay PBS a lump sum payment equal to the outstanding balance on the TI's for the returned space that PBS has been amortizing into the Rent.

Agency Lump Sum Options for Tenant Improvements and Rent

• j Topic: Advanced Rent Payments and RWA's

Question: Can an agency use an RWA to pre-pay shell rent?

No. The issue of advanced payments of Rent (through lump sum or incremental payments) involves matters of appropriations law. Most agencies are barred by fiscal regulation from using current-year funds to meet a future year's obligation. Annual money must be spent for the bona fide expenses of the agency within the FY it is made available. Although funds could be accepted for costs, such as TI's that have already been made and which would have been amortized over the term, GSA should not accept payments for space and services that have not yet been delivered.

• j Topic: TI Payments in Mid-Occupancies

Question: If an agency is 5 years into their OA and decides to do some alterations whereby they are paying by lump sum, can they also buy down some of the existing TI's that are being amortized?

No. They can only pay lump sum for the new work. Once the amortization of TI's begins, it is not interrupted except if the agency relinquishes the space. The Office of Finance and the Office of General Counsel have objected to PBS accepting lump sum payments to defray future year rent

obligations, since these constitute pre-payment of Rent. Most agencies are barred by fiscal regulation from using current year funds to meet a future year's obligation.

Question: If the agency expands mid-occupancy can they only buy down new TI's or can they buy down any portion of the TI's from the original block of space that are being amortized?

No. Expansion space does not allow the opportunity to buy down TI's on the initial space. On the other hand, space contraction would allow buy down of TI's on the initial space because it's equivalent to a partial relinquishment.

Restrictions of Rent Buy-Downs (See Example 15)

- j Topic: Making Lump Sum Payments through STAR vs. RWA's

Question: When must an agency make a lump sum payment for TI's by RWA and when must they make it through STAR?

Any expense that PBS would normally cover from appropriated funds (BA 51, BA 53, BA 54, BA 55) is paid by agencies through STAR so the funds can be credited to the FBF. However, any expense for which PBS did not budget is paid by agencies with an RWA (which is a mechanism for the reimbursable accounts). Since TI allowances are covered from appropriated funds, they are paid through STAR, either in the periodic Rent payments or by lump sum. However, in certain cases agencies can waive part or all of the TI allowance and pay for TI costs that are outside the allowance through lump sum RWA's. (See Tenant Improvement (TI) Payments table.)

Emergency Relocations

- j Topic: Force Majeure Issue

Question: Who is responsible for damage to shell and TI's that is the result of a force majeure event (e.g. flood, earthquake)?

In Federally owned space, if the TI's that have been destroyed are fully amortized, the agency can fund new TI's by RWA, or PBS can provide the funds and begin a new amortization schedule. If the TI's that have been destroyed are not fully amortized, PBS forgives the unamortized balance of the destroyed TI's. Either the agency or PBS can fund the new TI's.

In leased space, PBS has no right to demand that a lessor restore the premises; however, PBS can terminate paying rent on the damaged portion of the premises.

6.2 Delegations

6.3 Rent Appeals

Chapter 7: Special Case Pricing

7.1 Portfolio Leases

7.2 Return on Investment Pricing (*See Examples 2, 14*)

Joint Use Space

- j Topic: Charges for Ancillary Amenities (antennas, parking)

Question: Why doesn't PBS charge for ancillary amenities at ROI properties such as border stations?

When PBS prices an asset through the ROI process, the purpose of the Rent is to recover PBS's total capital costs. Therefore, additional income is not charged for any ancillary amenities for which PBS incurs no cost. However, any extra costs to PBS for above-standard amenities are recovered from the tenants.

7.3 United States Postal Office

- j Topic: Rent Rates

Question: What FY does the 4% fee take effect? Also, how long is the shell rate in effect?

The rates take effect in the FY that OMB approves them. The 4% fee for tenants in USPS space is became effective in October 2001. This fee is between GSA and the tenant agency, not USPS. It is not an issue for the USPS/GSA MOU.

A new national agreement between USPS and GSA is pending. Until a new agreement is enacted, USPS tends to provide new rates each year. Therefore, the terms of the rates in USPS buildings is determined by the current MOU between GSA and USPS, and the rates are changed each October.

7.4 Congressional District Offices

- j Topic: Amortization of TI's

Question: For new US Senate assignments in Federally owned space, can PBS add the TI amortization to the "as is" rate in order to recover its costs? The Rent bill would show \$0 for general and customization amortization.

No. The most PBS can charge US Senate assignments is an "as is" rate.

7.5 Antenna Site Pricing

- j Topic: Antennas and Border Stations

Question: Does ROI pricing include rent for antennae that are located on border stations?

No. PBS only charges for any capital or operating costs generated by the antennae.

Appendices

Billing Issues

Below are questions and issues that pertain to billing mechanisms, not pricing policy that have been received. Although they are not technically pricing issues, they are included as a service to the reader.

- j Topic: RWA's and Rent

Question: An agency wants to pay for reimbursable services (both recurring and non-recurring) in their Rent, not by RWA. Can they do this?

No. Placing overtime utilities, et al. on the PBS rent bill does not mean these RWA's are included in the Rent. It simply means that a single billing mechanism is used for more than one type of charge. Because STAR does not contain the coding structure to identify to NEAR the budget activity expenses to be offset by the RWA, at this time, RWA's cannot be included on the STAR-produced PBS Bill. A future STAR release will bill agencies for certain RWA's through the PBS Bill. This activity will not change RWA's into rent; it simply will allow the PBS Bill to be used for both Rent and RWA's.

Only Rent has to be specified in the Rent Estimate; however, if RWA information is available, it should be included with the Rent Estimate sent to the customer agencies. Changing the billing procedure for RWA's does not change anything else about the RWA program.

- j Topic: USPS Security Costs

Question: Where should the contract guard cost be shown on the PBS Bill when GSA is the provider for security?

If FPS has operating security costs in a USPS-controlled building, these costs are loaded into the basic security and building specific amortized capital lines even though they are actually operating costs. (A Responsibility Code of 4 FPS needs to be present, and an interest rate of 0% is used.) This is due to the limitations of the billing lines in the PBS Bill. Any USPS security costs are loaded into the building specific operating cost line.

- j Topic: Payment of Extra Services by Rent vs. RWA

Question: A lessor puts the costs of extra services required by a tenant agency in the lease. How should the agency pay for the services, in the Rent or with an RWA? How should PBS handle the payment in the billing process?

-RWA: The agency needs to pay with an RWA. The full payment to the lessor is entered into the lease file in STAR. STAR will send payment information to NEAR/Pegasys, and the funds will be drawn from B/A 53. STAR will generate lease recovery rates equal to the lessor payment. The OA will show the amounts to be put into STAR as client rates to override the recovery rates. The OA should reference the RWA, and an RWA should be processed by the Region to collect the funds from the agency and reimburse B/A 53 for the extra services.

-Rent: It is improper for the agency to pay for reimbursable services in the Rent payment. However, the agency can elect to have the RWA charge placed on the STAR bill, rather than a separate RWA document. This capability will be included in a future release of STAR; however, until the capability is available, the cost of extra services will have to be collected by RWA.

Tenant Improvement (TI) Payments For Owned or Leased Space

Tenant Improvement Payment Options	Initial Occupancy (Includes Expansion Space)		Post Initial Occupancy (Same OA term in same space)	Continuing Occupancy (New OA Term in same space).
	First Generation / Shell Space	Relet / Backfill Space		
Allowance – General Component**	Agency pays in Rent.	<ul style="list-style-type: none"> Agency pays in Rent, or; Agency waives this component and uses all of existing TI's or; Agency waives this component and pays for modification of existing TI's with lump sum RWA. 	<p>N/A</p> <p>GSA generally does not provide a tenant allowance for post initial occupancies.</p>	<p><i>Allowance is permitted but not required. If allowance is provided, payment is as follows:</i></p> <ul style="list-style-type: none"> Agency pays in Rent or; Agency pays with lump sum RWA.
Allowance – Customization Component**	<ul style="list-style-type: none"> Agency pays entire component in Rent or; Agency waives part of this component and pays for the lowered allowance in Rent or; Agency totally waives this component and has no customized TI's or; Agency waives part or all of this component and pays for TI's that are excluded from the allowance with lump sum RWA or; Agency pays for part or all of this component with a lump sum payment to STAR.** 	<ul style="list-style-type: none"> Agency pays entire component in Rent, or; Agency waives part of this component and pays for the lowered allowance in Rent, or; Agency totally waives this component and has no customized TI's (or uses all of existing TI's) or; Agency waives part or all of this component and pays for TI's that are excluded from the allowance (including modification of existing TI's) with lump sum RWA or; Agency pays for part or all of this component with a lump sum payment to STAR.** 	<p>N/A</p> <p>GSA generally does not provide a tenant allowance for post initial occupancies.</p>	<ul style="list-style-type: none"> Agency pays entire component in Rent or; Agency waives part of this component and pays for the lowered allowance in Rent or; Agency totally waives this component and has no customized TI's or; Agency waives part or all of this component but pays for TI's with lump sum RWA.
TI Costs Over or Outside Threshold Allowance	Agency pays with lump sum RWA.	Agency pays with lump sum RWA.	Agency pays with lump sum RWA.	Agency pays with lump sum RWA.
Tenant requested space changes, replacements, or enhancements of TI's.	N/A	N/A	Agency pays with lump sum RWA.	Agency pays with lump sum RWA.
Tenant Driven Enhancements to Building Shell (Includes special equipment)	<ul style="list-style-type: none"> Can be charged against allowance Agency can pay with lump sum RWA 	<ul style="list-style-type: none"> Can be charged against allowance Agency can pay with lump sum RWA 	<ul style="list-style-type: none"> Agency pays with lump sum RWA 	<ul style="list-style-type: none"> Can be charged against allowance Agency can pay with lump sum RWA

** All payment options must be determined by assignment inception. However, agencies have flexibility between the beginning of OA negotiations and assignment inception to determine whether they want to pay for all or part of the allowance by lump sum.

Note: When an agency's TI's are amortized in their rent, PBS provides the construction funds for the TI's up front.

**Project Management Service Fees
For Tenant Improvement (TI) Costs
(Owned or Leased Space)**

<u>Project Costs</u>	<u>Initial / New Occupancy</u> (Includes expansions)	<u>Post Initial Occupancy</u> (Same OA term in same space)	<u>Continuing Occupancy</u> (New OA term in same space)
TI costs for allowance (both General and Customization Components).	<ul style="list-style-type: none"> Owned space: For TIs within the allowance, included in the shell rent. Leased space: For TIs within the allowance, included in 8% fee. 	N/A (GSA does not provide an allowance for post initial occupancy)	<p>For owned or leased space:</p> <ul style="list-style-type: none"> Can be charged against allowance. (If PBS funds are available), or; Agency can pay with RWA Owned space: 4% management fee applies to entire value in either case. Leased space: Separate 4% fee only applies when TIs are funded with an RWA.
TI costs over or outside threshold allowance. (Includes tenant driven enhancements to building shell.)	<ul style="list-style-type: none"> Owned space: 4% management fee applies to value of TIs over the allowance. Leased space: 4% management fee applies to value of TIs over the allowance. Agency pays with RWA 	<p>For owned or leased space:</p> <ul style="list-style-type: none"> 4% management fee applies to entire value of TIs. Agency pays with RWA. 	<p>For owned or leased space:</p> <ul style="list-style-type: none"> 4% management fee applies to entire value of TIs. Agency pays with RWA.
Tenant requested space changes, replacements, or enhancements of TIs.	N/A (Does not apply to initial occupancies)	<p>For owned or leased space:</p> <ul style="list-style-type: none"> 4% management fee applies to entire value of TIs. Agency pays with RWA. 	<p>For owned or leased space:</p> <ul style="list-style-type: none"> 4% management fee applies to entire value of TIs. Agency pays with RWA.

NOTE: The allowance can be used to pay for both hard and soft goods

**PBS Services Provided for
Shell Rent (Owned Space) and 8 Percent Fee (Leased Space)€**

- Lease Acquisition Services
 - Solicit Offers
 - Review and Evaluate Offers
 - Negotiate Offers
 - Evaluate Offers
 - Prepare Lease Documents
 - Award Lease
- Prospectus Generation
- Requirements Development
- Space Planning
- Appraisals
- GSA Legal Staff Support
- Occupancy Agreement Preparation and Administration
- Environmental Studies
 - Federally-owned space: PBS conducts Phase I and sometimes Phase II studies.
 - Leased space: PBS requires offerors and lessors to secure environmental studies.
- Contingency Risk
 - Customers have the ability to withdraw up until the time PBS is ready to obligate funds or sign a lease.
- ***Project Management: Oversight over the design and construction of tenant improvements (TIs).**
 - Schedule development, review, and enforcement
 - Placement and administration of design, construction, and construction management contracts
 - Descoping
 - Cost Estimation
 - Price Negotiation of contracts
 - Oversight of A/E's efforts
 - Progress and final inspections
 - Project cost reconciliation
 - Enforcement of punchlist
 - Space measurement
- Services During Occupancy
 - Lease Administration
 - Property Management
 - Fire and Life Safety

***Project Management Services are also provided for the separate 4 percent management fee.**

Public Buildings Service	GSA	Companion Document	chapter 1	3/15/02
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Project Management Services not covered by the 8% or 4% fees:

- Actual design of space (from construction documents (CD) forward)
- A/E responsibilities (walk through, inspection, creation of punchlists, etc.)
- Contract CM costs
- Administrative processing (sliding scale) fees for RWA's
- Travel costs to remote locations
- Incidental costs (printing, messenger service, etc.)
- ☐ Services of GSA's internal telecommunications / network services and services of information technology experts
- Services of GSA's internal furniture, equipment and supply experts
- Assistance in planning and execution of the agency's physical relocation
- ☐ Relocation management services (The actual costs of providing relocation services is outside the fee.)
 - Special consulting services (The actual costs of provided special consulting services is outside the fee.)

II. Examples

Some of the examples include an Occupancy Agreement (OA) which document the term and resulting rent rates. Although the OA automatically calculates the rental components, these examples provide guidance on how a person could manually calculate the general and customized TI allowances with a financial calculator. In the case of any rounding differences between a financial calculator and the OA tool, the OA tool takes precedence. Also note, the OAs do not include the mandatory clauses because the examples are more an exercise in financial calculations rather than OA content.

In addition, each example represents various topics of the pricing policy and where these topics can be found in the Pricing Desk Guide, Edition No.3, including Change #1 dated 2/12/01.

Examples: Cross References with Pricing Desk Guide Chapters

Example 1:

- 1a:** Chapter 2, Section 2.1 The Occupancy Agreement
 - Section 2.2 The Building Shell
 - Section 2.3.2 Amortization of the Tenant Improvement Allowance
- 1b:** Chapter 2, Section 2.1 The Occupancy Agreement
 - Section 2.2 The Building Shell
 - Section 2.3.2 Amortization of the Tenant Improvement Allowance
 - Section 2.3.5 Changing or Appealing an Agency Customization Tier
- 1c:** Chapter 2, Section 2.3.2 Amortization of the Tenant Improvement Allowance
 - Chapter 6, Section 6.1 Return of Space
- 1d:** Chapter 2, Section 2.1 The Occupancy Agreement
 - Section 2.2 The Building Shell
 - Section 2.3.2 Amortization of the Tenant Improvement Allowance
- 1e:** Chapter 2, Section 2.3.4 Lump Sum Payment Responsibilities and Options for Tenant Improvements

Example 2:

Chapter 7, Section 7.2 Return on Investment Pricing

Example 3:

Chapter 3, Section 3.2.1 Shell Rent

Example 4:

Chapter 2, Section 2.3.2 Amortization of the Tenant Improvement Allowance
Chapter 3, Section 3.2.6 Security Charges

Example 5:

Chapter 3, Section 3.2.10 PBS Fee

Example 6:

Chapter 2, Section 2.3.4 Lump Sum Payment Responsibilities and Options for Tenant Improvements
Chapter 3, Section 3.2.10 PBS Fee

Example 7:

Chapter 2, Section 2.3.4 Lump Sum Payment Responsibilities and Options for Tenant Improvements
Chapter 3, Section 3.2.10 PBS Fee

Example 8:

Chapter 2, Section 2.3.4 Lump Sum Payment Responsibilities and Options for Tenant Improvements
Chapter 3, Section 3.2.10 PBS Fee

Public Buildings Service	GSA	Companion Document	chapter 2	3/15/02
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Example 9:

Chapter 2, Section 2.3.4 Lump Sum Payment Responsibilities and Options for Tenant
Improvements

Chapter 3, Section 3.2.10 PBS Fee

Example 10:

Chapter 3, Section 3.2.1 Shell Rent

Example 11:

Chapter 1, Introduction

Example 12:

Chapter 2, Section 2.3.1 Tenant Allowances for Warehouses

Chapter 3, Section 3.1 Building Classes

Example 13:

Chapter 5, Section 5.5 Funding Responsibilities of a Forcing Agency

Example 14:

Chapter 2, Section 2.3.2 Amortization of the Tenant Improvement Allowance

Chapter 7, Section 7.2 Return on Investment Pricing

Example 15:

Chapter 2, Section 2.3.4 Lump Sum Payment Responsibilities and Options for Tenant
Improvements

Chapter 4, Section 4.1 New Occupancies

Example 1a

Topics: Initial Occupancy in Gov't Owned Space
Agency spending below TI allowance

References: The Occupancy Agreement, Chapter 2, Section 2.1,
The Building Shell, Chapter 2, Section 2.2,
Tenant Improvement Allowances, Chapter 2, Section 2.3.2,

For examples 1a-1e, please refer to the issue stated below:

Issue: The Fish and Wildlife Service has a need for 10,000 USF of space in the Fort Snelling Federal Building in Fort Snelling, MN, a 350,000 USF building which has 10,000 square feet of vacant space in shell condition. The building has a Common Area Factor of 1.15. The Occupancy Agreement will be for a 5-year term. Below are the current rates for the building (all in USF):

Shell rent: \$20.00
As-is rate: \$21.50
Operating expenses: \$5.00
Basic Security: \$.21
Bldg. Specific Security: \$1.41

As this is an initial occupancy, they are allocated the following amount of money for tenant improvements:

\$35.75 per USF for general allowance or \$357,504 (\$31.92 X 1.12)*
*\$ 7.15 **per USF for customization allowance or \$71,501(Tier 2 = \$35.75 X 20% = \$7.15)*
Total: \$42.90 per USF or \$429,005 (\$42.90 X 10,000 USF= \$429,005. The \$429,005 is the figure generated by the OA tool, which accounts for the \$5 difference)

***General Component**

The general component is a dollar amount per usable square foot set to cover the cost of typical ratios of normal office space finish components, such as doors, partitions, carpeting, electrical and telecommunication outlets or standard "work letter" items. The general component takes the space from "shell" to "vanilla" office space. This allowance is set nationally, adjusted annually, and indexed to local construction costs. The general tenant improvement allowance is accorded to all prospective customer agency tenants.

The National Office of Portfolio Management issues the general allowance for Washington, D.C., the index city, annually. The FY 2000 (and FY01) rate for Washington, D.C. is \$31.92 per usable square foot. The general allowance is adjusted for other major cities and localities by multiplying the index city amount by the appropriate local construction cost factor. The local construction cost factor can be found in the "General Construction Cost Review Guide for Federal Office Buildings," published annually by the Office of the Chief Architect. The OA Tool is programmed to adjust the general allowance when city and state fields are entered.

Example 1a (cont'd)

****Customization Component**

The customization allowance is also a dollar amount per usable square foot, but it is tailored to individual agencies and bureaus. This component is intended to cover special items, preparations, or finishes which are not typical to all office space, but are necessary to customize the space for a particular customer agency. The customization component takes the space from "vanilla" office to space specific to the functioning of a particular customer agency. Examples of customization items include custom cabinetry or mill work, laboratory countertops and fume hoods, private restrooms, raised access flooring, upgraded ventilation for high occupancy uses, slab to slab concrete walls, built-in food service equipment, broadcast quality lighting or sound attenuation, etc.

PBS has created a series of customization tiers; each tier is equal to one tenth of the value of the general allowance. (Tier 1 is 10 percent above the general allowance; Tier 2 is 20 percent above the general allowance and so on.) Each agency and bureau is assigned a tier based upon a computation which took the weighted average of the cost to PBS to construct all space assigned to that agency or bureau. All space assigned in 1996, in terms of the old 16 space classifications and their construction cost multipliers, was analyzed and a blended average obtained. The blended average represented what PBS would have spent to build-out a particular agency or bureau's space. It does not include what the tenant agency might have funded through lump sum RWA payments. The calculation of a customization tier for each agency and bureau is an attempt to replace in the form of a monetary allowance, what PBS previously provided as "standard alterations" for a set of special space classifications. The blended average is not an attempt to cover all costs, but to provide equivalent value for what PBS had provided under the previous pricing practice. The establishment of general and customization allowances is not intended to eliminate the need for lump sum RWA payments.

Customization allowances are not adjusted since they are a percentage of the general allowance, which is already indexed to inflation and local construction costs. Adjustments to the general allowance will automatically translate into proportional adjustments to the customization tiers

Question (Part 1): If they spend \$300,000 on tenant alterations, what will their rent be?

Answer: \$34.90 USF or \$30.35 per RSF per annum (Note: This rate includes the cost of joint use space). Refer to OA.

Question (Part II): How can the per rentable square foot rate of the general tenant improvement allowance be manually calculated?

Answer: See OA and calculations below:

Example 1a (cont'd)

OCCUPANCY AGREEMENT
between
FISH AND WILDLIFE SERVICE
and
GENERAL SERVICES ADMINISTRATION

FISH AND WILDLIFE SERVICE will occupy 10,000 usable (11,500 rentable) square feet of space in the FT SNELLING, ONE FEDERAL DRIVE, FORT SNELLING, MN for a period of 60 months commencing on or about 06/01/2001.

The FISH AND WILDLIFE SERVICE will pay the General Services Administration rent in accordance with the attached page(s). The rental will be adjusted annually for operating cost escalations in accordance with the provisions in the FMR.

FISH AND WILDLIFE SERVICE will pay the General Services Administration additional rent for prorated share of joint use space associated with this location, if any.

Additional/reduced services are shown on the attached Occupancy Agreement Financial Summary.

Additional Clauses: None.

Tenant Specific Clauses: None.

Ad Hoc Clauses: None.

I agree to the initial terms with the understanding modifications will be made over time.

Approved: Approved:

Agency Representative	Title	Date	GSA Representative	Title	Date
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Public Buildings Service	GSA	Companion Document	chapter 2	3/15/02
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Example 1a (cont'd)

Occupancy Agreement Financial Summary					
Factors	Factors	Cost	Annual Cost Cost/SF	Part Year 6/01/01-09/30 Cost	
1. Shell Rental Rate					
a. General Purpose (rsf)	11,500	\$200,000.00	**\$17.39	\$66,666.67	
b. Warehouse (rsf)		\$0.00	\$0.00	\$0.00	
2. Amortized Tenant Improvement					
a. General Allowance Used		\$67,911.70	***\$5.91	\$22,637.23	
b. Amortization Term (in months)		60			
3. Operating Costs		*\$50,000.00	\$4.35	\$16,666.67	
4. Real Estate Tax	\$0.00		\$0.00	\$0.00	
• Market Rent subtotal	11,500	\$317,911.70	\$27.64	\$105,970.57	
5. Amortized Tenant Improvement					
a. Customization Allowance Used		\$0.00	\$0.00	\$0.00	
6. Security Services					
a. Basic Security Charges		\$2,070.00	\$0.18	\$690.00	
b. Rapid Response Charge		\$0.00	\$0.00	\$0.00	
c. Building Specific Operating Charges			\$14,139.38	\$1.23	\$4,713.13
d. Building Physical Enhancements		\$0.00	\$0.00	\$0.00	
7. Adjustments for Additional Services	11,500				
8. Adjustments for Reduced Services	11,500				
9. Parking					
a. Structured (number of spaces)	0	\$0.00	\$0.00	\$0.00	
b. Surface (number of spaces)	0	\$0.00	\$0.00	\$0.00	
10. Rent Charges for Other Space		\$0.00	N/A.	\$0.00	
11. Management Fees		\$0.00	N/A.	\$0.00	
• Agency Rent Subtotal	11,500	\$334,121.50	\$29.05	\$111,442.70	
12. Pro Rata Joint Use Charges		\$14,942.62	N/A.	\$4,980.87	
• Total Annual Rental	11,500	\$349,064.12	\$30.35	\$116,423.57	
13. Lump Sum Payments					
a. Tenant Improvement				\$0.00	
b. Forced Move					
c. Other				\$0.00	
14. Adjustments for one-time Services	11,500				

* Operating Costs Escalation Applies

**In the OA tool, input the usable shell rate because the space is currently in raw, unfinished condition and has never been occupied by another tenant.

***To calculate the payments, follow these steps on a HP-10B calculator:

Example 1a (cont'd)

HP-10B Calculator Steps

	Keystrokes	Display
1. Set the calculator for 12 periods per year	12 (gold key) P/YR	12.00
2. Clear all register/check periods per year	(gold key) CLEAR ALL	.00
3. Enter the loan amount	300,000 PV	300,000.00
4. Enter the annual interest rate*	4.985 I/YR	4.985
5. Enter the number of payments	5 (gold key) xP/YR	60.00
6. Calculate the monthly payment amount	PMT	-5,659.31**

*This is the 10-year Treasury Bond Rate plus 12.5 basis points, also known as the Federal Finance Bank (FFB) rate. Although this rate varies daily, the Office of Portfolio Management will set the rate in Spring of each year. Once a rate has been used in a preliminary OA with the customer agency, it is not necessary to adjust the rate based on the annual adjustment.

**Ignore the negative sign, the calculator automatically assigns it as a negative number because it represents a payment.

The \$5,659.31 number represents the total monthly payment the agency must make to GSA for the next 5 years in order to repay the \$300,000 they “borrowed” from GSA for tenant improvements. If this monthly amount is annualized, ($\$5,659.31 \times 12$), the yearly payment becomes \$67,911.70. That number is then divided by 11,500 (the amount of RSF they agency will occupy) which equates to a rentable square footage rate of \$5.91. However, due to rounding differences, the number generated by the OA tool should always be used.

Example 1b

Topics: Initial Space Occupancy in Government Owned Space
Agency spends more than General and Customized TI allowance

References: The Occupancy Agreement, Chapter 2, Section 2.1
The Building Shell, Chapter 2, Section 2.2
Tenant Improvement Allowances, Chapter 2, Section 2.3.2
Tenant Improvement Allowances, Chapter 2, Section 2.3.5

Issue: Refer to background information in Example 1a

Question (Part I): What if the agency decides to spend \$450,000?

Answer:

Either the agency would have to pay with an RWA for the overage or request a tier increase. In this example, we will assume the agency has requested the tier to be increased from Tier 2 to a Tier 3 (Remember that a tier increase is subject to the asset manager's approval and subsequent availability of funds). The agency would then be entitled to up to \$464,755 for tenant improvements as outlined below:

Approx. \$35.75 per USF for general allowance or \$357,504

Approx. \$10.73 per USF for customization allowance or \$107,251 ($\$35.75 \times 30\% = \10.73)

Total: Approx. \$46.48 per USF or approx. \$464,755

However, they are opting to spend only \$450,000 of the allotted \$464,755. Their resulting rent would increase to *\$33.31 RSF or \$38.30 USF*. (Note: These figures include the cost of joint use space)

Question (Part II): How can the per rentable square foot rate of the general and customized tenant improvement allowance be manually calculated?

Answer:

See the OA and calculations on the next page:

Example 1b (cont'd)

OCCUPANCY AGREEMENT
between
FISH AND WILDLIFE SERVICE
and
GENERAL SERVICES ADMINISTRATION

FISH AND WILDLIFE SERVICE will occupy 10,000 usable (11,500 rentable) square feet of space in the FT SNELLING, ONE FEDERAL DRIVE, FORT SNELLING, MN for a period of 60 months commencing on or about 06/01/2001.

The FISH AND WILDLIFE SERVICE will pay the General Services Administration rent in accordance with the attached page(s). The rental will be adjusted annually for operating cost escalations in accordance with the provisions in the FPMR.

FISH AND WILDLIFE SERVICE will pay the General Services Administration additional rent for prorated share of joint use space associated with this location, if any.

Additional/reduced services are shown on the attached Occupancy Agreement Financial Summary.

Additional Clauses: None.

Tenant Specific Clauses: None.

Ad Hoc Clauses: None.

I agree to the initial terms with the understanding modifications will be made over time.

Approved: Approved:

Agency Representative	Title	Date	GSA Representative	Title	Date
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Example 1b (cont'd)

Occupancy Agreement Financial Summary

			Annual Cost	Part Year 6/01-9/30 Factors Cost
	Factors	Cost	Cost/SF	
1. Shell Rental Rate				
a. General Purpose (rsf)	11,500	\$200,000.00	**\$17.39	\$66,666.67
b. Warehouse (rsf)	0	\$0.00	\$0.00	\$0.00
2. Amortized Tenant Improvement				
a. General Allowance Used		\$80,929.02	***\$7.04	\$26,976.34
b. Amortization Term (in months)	60			
3. Operating Costs		*\$50,000.00	\$4.35	\$16,666.67
4. Real Estate Tax		\$0.00	\$0.00	\$0.00
• Market Rent subtotal	11,500	\$330,929.02	\$28.78	\$110,309.67
5. Amortized Tenant Improvement				
a. Customization Allowance Used		\$20,938.54	***\$1.82	\$6,979.51
6. Security Services				
a. Basic Security Charges		\$2,070.00	\$0.18	\$690.00
b. Rapid Response Charge		\$0.00	\$0.00	\$0.00
c. Building Specific Operating Charges		\$14,139.38	\$1.23	\$4,713.13
d. Building Physical Enhancements		\$0.00	\$0.00	\$0.00
7. Adjustments for Additional Services	11,500			
8. Adjustments for Reduced Services	11,500			
9. Parking				
a. Structured (number of spaces)	0	\$0.00	\$0.00	\$0.00
b. Surface (number of spaces)	0	\$0.00	\$0.00	\$0.00
10. Rent Charges for Other Space		\$0.00	N/A.	\$0.00
11. Management Fees		\$0.00	N/A.	\$0.00
• Agency Rent Subtotal	11,500	\$368,076.94	\$32.01	\$122,692.31
12. Pro Rata Joint Use Charges		\$14,942.62	N/A.	\$4,980.87
• Total Annual Rental	11,500	\$383,019.56	\$33.31	\$127,673.18
13. Lump Sum Payments				
a. Tenant Improvement				\$0.00
b. Forced Move				
c. Other				\$0.00
14. Adjustments for one-time Services	11,500			

* Operating Costs Escalation Applies

**In the OA tool, input the usable shell rate because the space is currently in raw, unfinished condition and has never been occupied by another tenant.

***To calculate the payments for the general and customization allowance, follow these steps on a HP-10B calculator:

Example 1b (cont'd)

HP-10B Keystrokes

GENERAL ALLOWANCE

	Keystrokes	Display
1. Set the calculator for 12 periods per year	12 (gold key) P/YR	12.0
2. Clear all register/check periods per	(gold key) CLEAR ALL	0.00
3. Enter the loan amount	357504 PV	357,504.00
4. Enter the annual interest rate*	4.985 I/YR	4.985
5. Enter the number of payments	5 (gold key) xP/YR	60.00
6. Calculate the monthly payment amount	PMT	-6,744.09**

*This is the 10-year Treasury Bond Rate plus 12.5 basis points also known as the Federal Finance Bank (FFB) rate. Although this rate varies daily, the Office of Portfolio Management will set the rate in Spring of each year. Once a rate has been used in a preliminary OA with the customer agency, it is not necessary to adjust the rate based on the annual adjustment.

**Ignore the negative sign, the calculator automatically assigns it as a negative number because it represents a payment.

The \$6,744.09 number represents the total monthly payment the agency must make to GSA for the next 5 years in order to repay the \$357,504 they “borrowed” from GSA for tenant improvements. If this monthly amount is annualized, ($\$6,744.09 \times 12$), the yearly payment becomes \$80,929.02. That number is then divided by 11,500 (the amount of RSF they agency will occupy) which equates to a rentable square footage rate of \$7.04. However, due to rounding differences, the number generated by the OA tool should always be used.

CUSTOMIZATION ALLOWANCE

	Keystrokes	Display
1. Set the calculator for 12 periods per year	12 (gold key) P/YR	12.0
2. Clear all register/check periods per	(gold key) CLEAR ALL	0.00
3. Enter the loan amount	92496 PV	92,496.00
4. Enter the annual interest rate*	4.985 I/YR	4.985
5. Enter the number of payments	5 (gold key) xP/YR	60.00
6. Calculate the monthly payment amount	PMT	-1,744.88**

*This is the 10-year Treasury Bond Rate plus 12.5 basis points also known as the Federal Finance Bank (FFB) rate. Although this rate varies daily, the Office of Portfolio Management will set the rate in Spring of each year. Once a rate has been used in a preliminary OA with the customer agency, it is not necessary to adjust the rate based on the annual adjustment.

**Ignore the negative sign, the calculator automatically assigns it as a negative number because it represents a payment)

Example 1b (cont'd)

The \$1,744.88 number represents the total monthly payment the agency must make to GSA for the next 5 years in order to repay the \$92,496 they “borrowed” from GSA for tenant improvements. If this monthly amount is annualized, ($\$1,744.88 \times 12$), the yearly payment becomes \$20,938.54. That number is then divided by 11,500 (the amount of RSF they agency will occupy) which equates to a rentable square footage rate of \$1.82. However, due to rounding differences, the number generated by the OA tool should always be used.

Example 1c

Topic: Agency vacates space prior to the end of the OA term and has an Unamortized TI allowance

References: Tenant Improvement Allowances, Chapter 2, Section 2.3.2
Customer Rights and Options, Chapter 6, Section 6.1

Issue: Refer to background information in Example 1a

Question: In Example 1b, Fish and Wildlife amortized \$450,000 over a 5-year term commencing June 2001. If they vacated the space in August 2004 (after giving 120-day notice), what would be the balance of their unamortized tenant improvements?

In August, they would be making their 26th (out of 60) payments towards “repaying” GSA for the amount loaned to construct their space. Therefore, GSA would recoup the remaining “loan” balance at the end of 26 payments. This can be solved as follows:

Solve for PMT of the entire loan (\$450,000). It is not necessary to distinguish between the general and customization allowance here because we want to calculate the balance of the entire loan.

	Keystrokes	Display
1. Set the calculator for 12 periods per year	12 (gold key) P/YR	12.0
2. Clear all register/check periods per	(gold key) clear all	0.00
3. Enter the loan amount	450000 PV	450,000.00
4. Enter the annual interest rate*	4.985 I/YR	4.985
5. Enter the number of payments	60 N	60.00
6. Calculate the monthly payment amount	PMT	-8,488.96**

*This is the 10-year Treasury Bond Rate plus 12.5 basis points also known as the Federal Finance Bank (FFB) rate. Although this rate varies daily, the Office of Portfolio Management will set the rate in Spring of each year. Once a rate has been used in a preliminary OA with the customer agency, it is not necessary to adjust the rate based on the annual adjustment. NOTE: When determining the unamortized tenant improvement balance, use the interest rate from the initial amortization, not the current interest rate. That information can be found in the OA.

**Ignore the negative sign, the calculator automatically assigns it as a negative number because it represents a payment.

Example 1c (cont'd)

DO NOT CLEAR THE CALCULATOR

To find out the remaining balance after the 26th payment, follow these steps:

	Keystrokes	Display
1. Enter which payment to amortize	26 INPUT	26.0
2. Display the payment to amortize	(gold key) AMORT	PEr 26-26
3. Displays the interest	=	1,146.52
4. Displays the principal	=	7,342.45
5. Displays the balance	=	268,649.34

Therefore, the agency would be responsible to reimburse GSA approx. \$268,649.34 for the unamortized tenant improvements. This example provides the mechanics for computing this amount with a financial calculator; however, the new version of the OA will be able to calculate this information for you.

Example 1d

Topic: Difference in rent for an agency if they extend OA term from 5 years to 10 years

References : The Occupancy Agreement, Chapter 2, Section 2.1
The Building Shell, Chapter 2, Section 2.2
Tenant Improvement Allowances, Chapter 2, Section 2.3.2

Issue: Refer to background information in Example 1a

Question (Part I): The agency decides they would rather have slightly lower rental payments and would like to amortize the \$450,000 over a 10 year OA term. What would their rent be?

Answer: \$29.43 SF or \$33.84USF (These figures include the cost for joint use space).

Question (Part II): How can the per rentable square foot rate of the general and customized tenant improvement allowance be manually calculated?

Answer: See OA and calculations on the next page:

Example 1d (cont'd)

OCCUPANCY AGREEMENT
between
FISH AND WILDLIFE SERVICE
and
GENERAL SERVICES ADMINISTRATION

FISH AND WILDLIFE SERVICE will occupy 10,000 usable (11,500 rentable) square feet of space in the FT SNELLING, ONE FEDERAL DRIVE, FORT SNELLING, MN for a period of 120 months commencing on or about 06/01/2001.

The FISH AND WILDLIFE SERVICE will pay the General Services Administration rent in accordance with the attached page(s). The rental will be adjusted annually for operating cost escalations in accordance with the provisions in the FMR.

FISH AND WILDLIFE SERVICE will pay the General Services Administration additional rent for prorated share of joint use space associated with this location, if any.

Additional/reduced services are shown on the attached Occupancy Agreement Financial Summary.

Additional Clauses: None.

Tenant Specific Clauses: None.

Ad Hoc Clauses: None.

I agree to the initial terms with the understanding modifications will be made over time.

Approved: Approved:

Agency Representative	Title	Date	GSA Representative	Title	Date
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Example 1d (cont'd)**Occupancy Agreement Financial Summary**

		Annual Cost		Part Year
				06/01/01-09/30
Factors	Factors	Cost	Cost/SF	Cost
1. Shell Rental Rate				
a. General Purpose (rsf)	11,500	\$200,000.00	**\$17.39	\$66,666.67
b. Warehouse (rent sq. ft.)	0	\$0.00	\$0.00	\$0.00
2. Amortized Tenant Improvement				
a. General Allowance Used		\$45,471.17	***\$3.95	\$15,157.06
b. Amortization Term (in months)	120			
3. Operating Costs *		\$50,000.00	\$4.35	\$16,666.67
4. Real Estate Tax		\$0.00	\$0.00	\$0.00
• Market Rent subtotal	11,500	\$295,471.17	\$25.69	\$98,490.39
5. Amortized Tenant Improvement				
a. Customization Allowance Used		\$11,764.63	***\$1.02	\$3,921.54
6. Security Services				
a. Basic Security Charges		\$2,070.00	\$0.18	\$690.00
b. Rapid Response Charge		\$0.00	\$0.00	\$0.00
c. Building Specific Operating Charges		\$14,139.38	\$1.23	\$4,713.13
d. Building Physical Enhancements		\$0.00	\$0.00	\$0.00
7. Adjustments for Additional Services	11,500			
8. Adjustments for Reduced Services	11,500			
9. Parking				
a. Structured (number of spaces)	0	\$0.00		\$0.00
b. Surface (number of spaces)	0	\$0.00		\$0.00
10. Rent Charges for Other Space		\$0.00	N/A.	\$0.00
11. Management Fees		\$0.00	N/A.	\$0.00
• Agency Rent Subtotal	11,500	\$323,445.18	\$28.13	\$107,815.06
12. Pro Rata Joint Use Charges		\$14,942.62	N/A.	\$4,980.87
• Total Annual Rental	11,500	\$338,387.80	\$29.43	\$112,795.93
13. Lump Sum Payments				
a. Tenant Improvement				\$0.00
b. Forced Move				
c. Other				\$0.00
14. Adjustments for one-time Services	11,500			

* Operating Costs Escalation Applies

**In the OA tool, input the usable shell rate because the space is currently in raw, unfinished condition and has never been occupied by another tenant.

***To calculate the payments for the general and customization allowance, follow these steps on a HP-10B calculator:

Example 1d (cont'd)

HP-10B Keystrokes

GENERAL ALLOWANCE

	Keystrokes	Display
1. Set the calculator for 12 periods per year	12 (gold key) P/YR	12.0
2. Clear all register/check periods per	(gold key) CLEAR ALL	0.00
3. Enter the loan amount	357504 PV	357,504.00
4. Enter the annual interest rate*	4.985 I/YR	4.985
5. Enter the number of payments	10 (gold key) xP/YR	120.00
6. Calculate the monthly payment amount	PMT	-3,789.26**

*This is the 10-year Treasury Bond Rate plus 12.5 basis points also known as the Federal Finance Bank (FFB) rate. Although this rate varies daily, the Office of Portfolio Management will set the rate in Spring of each year. Once a rate has been used in a preliminary OA with the customer agency, it is not necessary to adjust the rate based on the annual adjustment.

**Ignore the negative sign, the calculator automatically assigns it as a negative number because it represents a payment

The \$3,789.26 number represents the total monthly payment the agency must make to GSA for the next 10 years in order to repay the \$357,504 they "borrowed" from GSA for tenant improvements. If this monthly amount is annualized, ($\$3,789.26 \times 12$), the yearly payment becomes \$45,471.17. That number is then divided by 11,500 (the amount of RSF they agency will occupy) which equates to a rentable square footage rate of \$3.95.

CUSTOMIZATION ALLOWANCE

	Keystrokes	Display
1. Set the calculator for 12 periods per year	12 (gold key) P/YR	12.0
2. Clear all register/check periods per	(gold key) CLEAR ALL	0.00
3. Enter the loan amount	92496 PV	92,496.00
4. Enter the annual interest rate*	4.985 I/YR	4.985
5. Enter the number of payments	10 (gold key) xP/YR	120.00
6. Calculate the monthly payment amount	PMT	-980.39**

*This is the 10-year Treasury Bond Rate plus 12.5 basis points also known as the Federal Finance Bank (FFB) rate. Although this rate varies daily, the Office of Portfolio Management will set the rate in Spring of each year. Once a rate has been used in a preliminary OA with the customer agency, it is not necessary to adjust the rate based on the annual adjustment.

**Ignore the negative sign, the calculator automatically assigns it as a negative number because it represents a payment.

Example 1d (cont'd)

The \$980.39 number represents the total monthly payment the agency must make to GSA for the next 10 years in order to repay the \$92,496 they “borrowed” from GSA for tenant improvements. If this monthly amount is annualized, ($\$980.39 * 12$), the yearly payment becomes \$11,764.63. That number is then divided by 11,500 (the amount of RSF they agency will occupy) which equates to a rentable square footage rate of \$1.02.

Because the payments on the \$450,000 are spread over a larger timeframe, the resulting RSF rates for the general and customized TIS are \$3.95 and \$1.02 per RSF.

Example 1e

Topic: Relet Space in Government Owned Space

Reference: Tenant Improvement Allowances, Chapter 2, Section 2.3.4

Issue: Refer to background information in Example 1a

Question: DOL is vacating 10,000 USF of space on the 3rd floor at the end of their OA term. They have only been in the space for 5 years and the space is in fairly good condition. Fish and Wildlife can use a majority of the space layout but would like to refresh the carpet and paint, add a few outlets and move a few walls. The total cost for these minor alterations is \$100,000.

Referring to the background information for Examples 1a-1e, what rental rate would the agency pay upon completion of this work?

Because this is relet space, they can elect to pay for minor modifications to the space by a lump sum payment via an RWA. In that scenario, based on the fact that they are using most of the existing TIs, the agency would be charged the “as-is” rate for the space, in this case \$21.50 per RSF plus any applicable security, operating, parking and joint use charges.

Example 2

Topic : Hurdle Analysis

Reference: Return on Investment Pricing, Chapter 7, Section 7.2

Question: When is a hurdle analysis used?

Answer: It is used when determining whether or not ROI pricing should be used for a particular project. It is conducted to determine if the appraisal- based rent meets PBS' minimum return objectives.

It is conducted as follows:

- 1) Take the first year's minimum rent (i.e., the rent net of taxes and operating costs
- 2) Divide by the total capital investment (both hard and soft costs)
- 3) If the quotient is less than the hurdle rate, then the appraised rental rate does not constitute a fair return on investment.

The current hurdle rate is 6%; the Central Office of Portfolio Management will adjust this rate as necessary.

An example is as follows:

A 20,000 RSF square foot annex is to be built at a Courthouse. The total cost to design and construct this annex is \$4,500,000. Current appraised rents for this area (net of taxes and operating costs) are \$12 per RSF. Therefore, multiply 20,000 by \$12 to calculate the market rent for the first year (\$240,000). Divide the \$240,000 into the cost of construction (\$4,500,000) to calculate the return of this investment, which is 5.3%. This number is less than the current hurdle rate of 6%; therefore, the appraised rental rate does not constitute a fair return on investment and ROI pricing must be used.

Example 3

Topic: Rent Concessions
Unamortized Tenant Improvements

Reference: Shell Rent, Chapter 3, Section 3.2.1

Issue: Agency XYZ will occupy 10,000 rentable square feet of space in a leased building beginning June 1, 2001 through May 31, 2011. The lessor has proposed the following rent structure:

Months	1-6	Free rent
	7-12	\$28 per RSF per annum, fully serviced
Year	2-10	\$28 per RSF per annum, fully serviced

Within the fully serviced rent rate, the lessor has provided \$300,000 of tenant improvements. If the agency vacates the space on September 1, 2006, what financial responsibility will they have to GSA?

The agency will have to pay back a portion of the rent concession as well as the value of the unamortized tenant improvements. Let's calculate the rent concession value first.

The agency signed a 10 year OA and they pay monthly so conceivable they would make 120 rent payments. However, since the lessor is providing six months of free rent as part of the lease terms, that savings is passed on to the agency, so there are now $(120-6) = 114$ payments. If the agency vacates the space on September 1, 2006, they will have made $(63 \text{ months} - 6 \text{ months free rent}) = 57$ payments. This means the agency has earned only 50% of the initial "free rent" concession $(57 \text{ payments} / 114 \text{ payments})$. 50% of the initial six month free rent concession equals $(6 \times .5) = 3$. Therefore, the customer agency must pay back PBS three (3) months worth of "free rent". In this example, that would equal $(\$28.00 \times 10,000 = \$280,000 / 12 \text{ months} = \$23,333.33 \times 3 \text{ months} = \text{approx. } \$70,000$.

In addition, the agency is responsible for repaying any unamortized tenant improvements. When solving for the balance, the entire time the agency has been occupying the space (63 months) must be considered as opposed to the number of rent payments they have made (57) because the improvements have been in place for 63 months, not 57.

In September 2006, they will have occupied the space for 63 out of 120 months. Therefore, GSA would recoup the remaining "loan" balance at the end of 63 payments. This can be solved as follows:

Using an HP-10 B calculator, solve for PMT of the entire loan (\$300,000). It is not necessary to distinguish between the general and customization allowance here because the balance of the entire loan is to be calculated.

Example 3 (cont'd)

	Keystrokes	Display
1. Set the calculator for 12 periods per year	12 (gold key) P/YR	12.0
2. Clear all register/check periods per	(gold key) CLEAR ALL	0.00
3. Enter the loan amount	300000 PV	300,000.00
4. Enter the annual interest rate*	9 I/YR	9.000
5. Enter the number of payments	10 gold key N	120.00
6. Calculate the monthly payment amount	PMT	-3,800.27*

*This is the interest rate the Lessor used to amortize the tenant improvements built into the rental rate.

DO NOT CLEAR THE CALCULATOR

To find out the remaining balance after the 63rd payment, follow these steps:

	Keystrokes	Display
1. Enter which payment to amortize	63 INPUT	63.0
2. Display the payment to amortize	(gold key) AMORT	PEr 63-63
3. Displays the interest	=	-1,336.50
4. Displays the principal	=	-2,463.78
5. Displays the balance	=	175,735.55

Therefore, the agency would be responsible to reimburse GSA approx. \$175,735.55 for the unamortized tenant improvements. This example provides the mechanics for figuring out this amount with a financial calculator; however, always refer to STAR for the exact payoff amount.

Example 4

Topic: Building Specific Amortized Capital
Multiple Amortization Terms

Reference: Multiple Amortization Terms, Chapter 2, Section 2.3.2
Security Charges, Chapter 3, Section 3.2.6

Issue: A 500,000 RSF building was constructed in Anytown, USA. Tenants moved into the space on June 1, 2001. Initial security buildout included magnetometers, x-ray machines and surveillance cameras, which cost \$750,000. The useful life of this equipment is 7 years; however, generally accepted accounting practice is to depreciate equipment over 5 years; thus PBS will use 5 years as the amortization period for security equipment. In addition, due to increased security measures based on activities occurring in the plaza, it was determined concrete barriers needed to be added around the perimeter. The cost to purchase and install these barriers is \$300,000. They will also be amortized over 5 years and will be installed by December 2002. Because security items would not be included in a market comparable appraised rent rate, agencies are charged separately for these items, also known as building specific amortized capital.

Question: Based on these costs, what would an agency in this building be charged, on a RSF basis, for building specific amortized capital as of January 1, 2003?

Answer: In this scenario, there are two different amortization terms which will coincide but which need to be solved separately. The 5-year amortization period for the initial security buildout (\$750,000) will span from rental payments beginning on June 1, 2001 through the May 2006 rent bill. The 5-year amortization period for the barriers (\$300,000) will span from rental payments beginning on December 2002 through the November 2007 rent bill.

Begin with the first amortization period of the initial security buildout. In order to visualize, use a T-BAR, a common problem solving technique developed by the Commercial Investment Real Estate Institute (CIREI). The information known thus far is:

The amortization period is 5 years and since agencies pay us monthly, they will make 60 payments, on a per rentable square foot basis, to pay off the "\$750,000 loan" GSA has made to install the security improvements. So the resulting T-BAR is as follows:

Key : N = number of payments

\$ = amount of initial loan and the subsequent payments.

Example 4 (cont'd)

N	\$
0	(\$750,000)
1	PAYMENT (PMT) = ?
-	
-	
-	
60	

Using the top line of the HP-10B, input 60 payments, (5 gold key N) , 4.985 I/YR (current 10 year Federal Financing Bank rate), -\$750,000 as the present value (PV key) of the amount paid out for these improvements and solve for the payment. The monthly payment is \$14,148.274. Insert that into the T-Bar for the following result:

N	\$
0	(\$750,000.00)
1	\$14,148.27
-	-
-	-
-	-
60	\$14,148.27

In order to solve how much the tenant will pay based on a RSF, first annualize this payment ($\$14,148.27 \times 12$) = \$169,779.26. Then divide this payment by the RSF in the building (500,000) to calculate the rentable square foot cost of \$0.34. Therefore, for the period of June 1, 2001 through the rent bill of May 1, 2006 , agencies in this building will be charged \$0.34 per RSF. What happens when the new changes go into effect in the building as of December 1, 2002?

First, solve for the RSF payment as was done above (5 - year or 60 month payment term, 4.985% interest rate, \$300,000 present value of the "loan"). After solving for the monthly payment (\$5,659.31) and then annualizing it ($\$5,659.31 \times 12$) = \$67,911.70, divide the resulting quotient by 500,000 RSF for a RSF rate of \$0.14.

Therefore, if an agency moved into the building at the inception (June 1, 2001), its building specific amortized capital charges would be as follows:

June 1, 2001- December 1, 2002 \$0.34 per RSF per annum
 December 1, 2002 – May 1, 2006 \$0.34 + \$0.14 = \$0.48 per RSF per annum
 May 1, 2006 – November 1, 2007 \$0.14 per RSF per annum

Assuming no other security enhancements are made at the building, the charge for building specific amortized capital would completely drop off the agency's rent bill after the November 1st rent bill.

Examples 5- 9 illustrate various applications of the 4% project management fee

Example 5

Topic: Initial occupancy in Government-owned space, spending below allowance

Reference: PBS Fee, Chapter 3, Section 3.2.10

Issue: The following table below illustrates all the costs associated with an agency's initial occupancy of space in a Government-owned building.

	Estimated Actual Cost	Who will perform the work
Demolition of existing TIs	0	--
Design of space	\$14,000	Contractor
Walkthrough, inspection, punchlists, CQM	\$4,000	Contractor
Oversee design and construction process	\$5,000	PBS
Materials	\$30,000	Contractor
Installation labor	\$52,000	Contractor

The customer agency is allocated the following amount of money from PBS:

- 1) General TI allowance = \$100,000.
- 2) Customization TI allowance = \$20,000.

The customer agency would like to amortize the entire amount of these costs into their rent.

Based on the above costs,

- How much will be amortized in the rent?
- **Answer:** \$100,000
- How much will be paid via RWA? \$0
- **Answer:**
- Will a 4% project management fee be assessed?
- **Answer:** No, because the agency is spending below the general allowance. In these circumstances, the fee is a component of the shell rent.

Solution to Example 5:

The following costs are chargeable to the customer

	Cost Charged to Customer
Demolition of existing TIs	0
Design of space	\$14,000
Walkthrough, inspection, punchlists (CQM)	\$4,000
Oversee design and construction process	0
Materials	\$30,000
Installation labor	\$52,000
Total	\$100,000

Since this is an initial occupancy scenario, PBS is obligated to fund both the general and customization allowance allocated to the tenant. Because the amount chargeable to the customer (\$100,000) is less than the customer's general and customization allowance (\$120,000), the entire amount can be amortized.

Example 6

Topic : Initial occupancy in Govt.-owned space; Customer elects zero customization tier.

Reference: Lump Sum Payment Responsibilities and Options for TIs, Chapter 2, Section 2.3.4

PBS Fee, Chapter 3, Section 3.2.10

Issue: The following table below illustrates all the costs associated with an agency's initial occupancy of space in a Government-owned building.

	Estimated Actual Cost	Who will perform The work
Demolition of existing TIs	0	--
Design of space	\$14,000	Contractor
Walkthrough, inspection, punchlists (CQM)	\$4,000	Contractor
Oversee design and construction process	\$4,920	PBS
Materials	\$40,000	Contractor
Installation labor	\$65,000	Contractor

The customer agency is allocated the following amount of money from PBS:

- 1) General TI allowance = \$100,000.
- 2) Customization TI allowance = \$20,000.

The customer is electing a zero customization allowance.

Based on the above costs:

- How much will be amortized in the rent?
- **Answer:** \$100,000
- How much will be paid via RWA?
- **Answer:** \$25,959
- Based on preliminary cost estimates, is the 4% project management fee adequate to cover PBS's estimated costs?
- **Answer:** Yes, see calculations below.

Solution to Example 6:

The following costs are chargeable to the customer

	Cost Charged to Customer
Demolition of existing TIs	0
Design of space	\$14,000
Walkthrough, inspection, punchlists (CQM)	\$4,000
Oversee design and construction process	0
Materials	\$40,000
Installation labor	\$65,000
Total	\$123,000

Example 6 (cont'd)

Since this is an initial occupancy scenario, PBS is obligated to fund both the general and customization allowance allocated to the tenant. The customer may elect a zero customization allowance and pay via a Reimbursable Work Authorization (RWA) for the customization component of their tenant improvements. In that case \$100,000 will be amortized into their Rent, and the remaining \$23,000 will be paid via RWA calculated as follows:

\$123,000	Total Cost
-\$100,000	minus amortized amount
\$23,000	RWA amount
\$920	4% project mgmt fee**
\$23,920	Subtotal
\$2,039	Sliding scale admin fee *
\$25,959	Total RWA amount

* The sliding scale fee is calculated as follows:

Non-Recurring RWA's - Overhead Rates

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Worksheet protection enabled (no password)

ENTER	\$
RWA	23,920.00
BASE	
ESTIMATE	
TOTAL	\$ 2,038.60
OVERHEAD	
TOTAL	\$
RWA	25,958.60
COST	

Data & Calculation Table - Make NO Changes				
RATE	RANGE		SUBTOTAL	MAX/RNG
0.1		2499	250.00	250
0.09	2500	9999	675.00	675
0.08	10000	24999	1113.60	1200
0.07	25000	49999		1750
0.05	50000	99999		2500
0.03	100000	299999		6000
0.015	300000	999999		10500
0.005	1000000	2425000		7125

** At the time preliminary cost estimations of the project are done, it may be desirable to evaluate if the 4% fee will cover PBS's project management costs, as is shown on the next page:

Example 6 (cont'd)

Public Buildings Service	GSA	Companion Document	chapter 2	3/15/02
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Estimated cost to oversee the entire project is \$4,920. The cost to oversee the reimbursable portion is calculated as follows:

$$\$4,920 \times (\$23,000 / \$123,000) = \$920$$

$$4\% \text{ of the reimbursable amount would be } (.04 \times \$23,000) = \$920$$

These preliminary cost estimations indicate that the 4% fee will be adequate.

Example 7

Topic: Initial Occupancy in Government Owned Space; Customer Elects Zero Customization Tier; 4% fee issue.

Reference: Lump Sum Payment Responsibilities and Options for Tenant Improvements, Chapter 2, Section 2.3.4
PBS Fee, Chapter 3, Section 3.2.10

Issue: The following table below illustrates all the costs associated with an agency's initial occupancy of space in a Government Owned building.

	Estimated Actual Cost	Who will perform the work
Demolition of existing TIs	0	--
Design of space	\$14,000	Contractor
Walkthrough, inspection, punchlists (CQM)	\$4,000	Contractor
Oversee design and construction process	\$7,000	PBS
Materials	\$40,000	Contractor
Installation labor	\$65,000	Contractor

The customer agency is allocated the following amount of money from PBS:

- 1) General TI allowance = \$100,000.
- 2) Customization TI allowance = \$20,000.

The customer agency would like to amortize the General TI allowance into their rent and pay the customization allowance via an RWA.

Based on the above costs:

- How much will be amortized in the rent?
- **Answer:** \$100,000
- How much will be paid via RWA?
- **Answer:** \$26,379
- Do preliminary cost estimations indicate that the 4% project management fee adequate to cover PBS's estimated project management costs?
- **Answer:** No, see calculations on the next page.

Example 7 (cont'd)

Solution to Example 7:

The following costs are chargeable to the customer:

	Cost Charged to Customer
Demolition of existing TIs	0
Design of space	\$14,000
Walkthrough, inspection, punchlists (CQM)	\$4,000
Oversee design and construction process	0
Materials	\$40,000
Installation labor	\$65,000
Total	\$123,000

Since this is an initial occupancy scenario, PBS is obligated to fund both the general and customization allowance allocated to the tenant. The customer may elect a customization tier of zero and pay via a Reimbursable Work Authorization (RWA) for the customization component of their tenant improvements. In that case \$100,000 will be amortized into their rent, and the remaining \$23,000 will be paid via RWA calculated as follows:

\$123,000	Total Cost
-\$100,000	minus amortized amount
\$23,000	RWA amount
\$1,309	Project mgmt fee**
\$24,309	Subtotal
\$2,070	Sliding scale admin fee*
\$26,379	Total RWA amount

Example 7 (cont'd)

*The sliding scale admin fee is calculated as follows:

Non-Recurring RWA's - Overhead Rates

Rev: 9/5/96

Worksheet protection enabled (no password)

ENTER	\$
RWA BASE	24,309.00
ESTIMATE	
TOTAL	\$ 2,069.72
OVERHEAD	
TOTAL	\$
RWA COST	26,378.72

Data & Calculation Table - Make NO Changes				
RATE	RANGE		SUBTOTAL	MAX/RNG
0.1		2499	250.00	250
0.09	2500	9999	675.00	675
0.08	10000	24999	1144.72	1200
0.07	25000	49999		1750
0.05	50000	99999		2500
0.03	100000	299999		6000
0.015	300000	999999		10500
0.005	1000000	2425000		7125

** When preliminary cost estimations of the project are done, it may be desirable to evaluate if the 4% fee will cover PBS's project management costs, as is shown below:

Estimated cost to oversee the entire project is \$7,000. The cost to oversee the reimbursable portion is calculated as follows:

Example 7 (contd.)

$$\$7,000 \times (\$23,000/\$123,000) = \$1,309$$

$$4\% \text{ of the reimbursable amount would be } (.04 \times \$23,000) = \$920$$

These preliminary estimates indicate that the 4% fee would be slightly below PBS's project management costs.

Example 8

Topic: Relet Occupancy in Government Owned Space. Beginning of new OA;
Existing TIs will substantially remain in space; 4% fee issue.

Reference: Lump Sum Payment Responsibilities and Options for Tenant
Improvements, Chapter 2, Section 2.3.4
PBS Fee, Chapter 3, Section 3.2.10

Issue: The following table below illustrates all the costs associated with the agency's relet occupancy in a Government-owned building.

	Estimated Actual Cost	Who will perform work
Demolition of existing TIs	\$1,000	Contractor
Design of space	\$4,000	Contractor
Walkthrough, inspection, punchlists (CQM)	\$2,000	PBS
Oversee design and construction process	\$3,000	PBS
Materials	\$10,000	Contractor
Installation labor	\$15,000	Contractor

The customer agency is allocated the following amount of money from PBS:

General TI allowance = \$100,000.

Customization TI allowance = \$20,000.

Based on the above costs:

-How much will be amortized in the rent?

Answer: \$0, since this is relet space and there are existing TIs that will substantially remain, the customer may pay the entire amount via RWA.

-How much will be paid via RWA?

Answer: \$36,755

-Do preliminary cost estimations indicate that the 4% fee be adequate to cover PBS's project management costs?

Answer: No, see calculations on the next page.

Example 8 (cont'd)

Solution to Example 8:

The following costs are chargeable to the customer:

	Cost Charged to Customer
Demolition of existing TIs	0
Design of space	\$4,000
Walkthrough, inspection, punchlists (CQM)	\$2,000
Oversee design and construction process	0
Materials	\$10,000
Installation labor	\$15,000
Total	\$31,000

The RWA would be calculated as follows:

\$31,000	Total Cost
-\$0	Minus amortized amount
\$31,000	RWA amount
\$3,000	Project mgmt fee**
\$34,000	Subtotal
\$2,755	Sliding scale admin fee*
\$36,755	Total RWA amount

Example 8 (cont'd)

*The sliding scale admin fee is calculated as follows:

Non-Recurring RWA's - Overhead Rates

Rev: 9/5/96

Worksheet protection enabled (no password)

ENTER	\$	34,000.00
RWA BASE		
ESTIMATE		
TOTAL	\$	2,755.00
OVERHEAD		
TOTAL	\$	36,755.00
RWA COST		

Data & Calculation Table – Make NO Changes				
RATE	RANGE		SUBTOTAL	MAX/RNG
0.1		2499	250.00	250
0.09	2500	9999	675.00	675
0.08	10000	24999	1200.00	1200
0.07	25000	49999	630.00	1750
0.05	50000	99999		2500
0.03	100000	299999		6000
0.015	300000	999999		10500
0.005	1000000	2425000		7125

**Calculation of project management fee

Estimated cost to oversee the project is \$3,000. The cost to oversee the reimbursable portion of this project would be \$3,000 because the entire project is reimbursable. 4% of the RWA amount would be $(.04 \times \$31,000) = \$1,240$.

These preliminary estimates indicate that the 4% fee would be below PBS's project management costs.

Example 9

Topic : Relet Occupancy in Government-owned Space. Beginning of new OA; existing TIs will be removed.

References: Lump Sum Payment Responsibilities and Options for Tenant Improvements, Chapter 2, Section 2.3.4
PBS Fee, Chapter 3, Section 3.2.10

Issue: The following table below illustrates all the costs associated with the agency's relet occupancy in a Government Owned building.

	Estimated Actual Cost	Who will perform the work
Demolition of existing TIs	\$5,000	--
Design of space	\$14,000	Contractor
Walkthrough, inspection, punchlists (CQM)	\$4,000	PBS
Oversee design and construction process	\$5,300	PBS
Materials	\$50,000	Contractor
Installation labor	\$85,000	Contractor

The customer agency is allocated the following amount of money from PBS:

- 1) General TI allowance = \$100,000.
- 2) Customization TI allowance = \$20,000.

Customer would like to pay entire amount via RWA

Will the customer's allowance cover the entire project?

Answer: No, because the total cost to the customer is \$153,000, which is \$33,000 above their allowance.

Can the customer amortize the entire amount?

Answer: No, see solution

Can the customer pay the entire amount via RWA?

Answer: No, see solution

How much of the TI cost will be amortized?

Answer: \$100,000

Is the PBS fee adequate to cover preliminary PBS project management cost estimates?

Answer: Yes, see calculations below.

Example 9 (cont'd)

Solution to Example 9

The following costs are chargeable to the customer:

	Cost Charged to Customer
Demolition of existing TIs	0
Design of space	\$14,000
Walkthrough, inspection, punchlists (CQM)	\$4,000
Oversee design and construction process	0
Materials	\$50,000
Installation labor	\$85,000
Total	\$153,000

Although this is relet space, all existing TIs will be removed. In that scenario, PBS must provide up to the general allowance. The customer may elect a tier of zero and pay via RWA for all costs above the general allowance. The general allowance in this example is \$100,000, which will be amortized in the Rent.

The RWA would be calculated as follows:

\$153,000	Total Cost
-\$100,000	Minus amortized amount
\$53,000	RWA amount
\$2,120	Project mgmt fee*
\$55,120	Subtotal
\$4,131	Sliding scale admin fee**
\$59,252	Total RWA amount

*Calculation of the project management fee

The estimated cost to over see the entire project is \$5,300. The cost to oversee the reimbursable portion of this project would be $\$5,300 \times (\$53,000/\$153,000) = \$1,835$.

4% of the reimbursable amount would be $(.04 \times \$53,000) = \$2,120$

The preliminary cost estimations indicate that the 4% project management fee (\$2,120) would cover the reimbursable project costs (\$1,835).

Example 9 (cont'd)

**Calculation of the sliding scale admin fee

Non-Recurring RWA's - Overhead Rates

Rev: 9/5/96

Worksheet protection enabled (no password)

ENTER	\$
RWA	55,120.00
BASE	
ESTIMATE	
TOTAL	\$ 4,131.00
OVERHEAD	
TOTAL	\$ 59,251.00
RWA	
COST	

Data & Calculation Table – Make NO Changes				
RATE	RANGE		SUBTOTAL	MAX/RNG
0.1		2499	250.00	250
0.09	2500	9999	675.00	675
0.08	10000	24999	1200.00	1200
0.07	25000	49999	1750.00	1750
0.05	50000	99999	256.00	2500
0.03	100000	299999		6000
0.015	300000	999999		10500
0.005	1000000	2425000		7125

Example 10

Topic: Stepped rents in a lease; How to levelize stepped rents

Reference: Shell Rent, Chapter 3, Section 3.2.1

Issue:

At no time during the lease term should the rent be non-market. Also, PBS should avoid leases that have widely distanced rate steps. An example is would be a 15-year lease that has a level rent of \$25.00 per square foot for the first 7.5 years, and then drops to \$15.00 per square foot for the last 7.5 years, or a lease in which these rates are reversed. However, if a lease does contain steep rent steps, it should be leveled out and documented in the OA. Lease rental rate structures with steep steps or tiers (or that in other ways create long periods in which the rents are non-market) do represent risk to PBS if the lease cost is merely to pass through to the tenant. PBS "levelizes" or smoothes out the non-market bumps in establishing the rental rates charged to customer agencies. The following example addresses this situation:

Agency ABC is moving into 20,000 square feet of space for a 10-year firm term. Market rates for this area are \$20 per RSF. The lessor has proposed the following rent structure:

Year 1-5 \$15 per RSF
Year 6-10 \$25 per RSF

Because the rates are below market in Years 1-5 and above market in Years 6-10, the Rent needs to be levelized. To determine the levelized rent, use the OMB discount rate and determine the constant payment, which is the present value equivalent of the stepped rent cash flow. This is calculated as follows:

N	\$
0	Present Value (PV) = ??
1	\$300,000 →
2	\$300,000
3	\$300,000
4	\$300,000
5	\$300,000
6	\$500,000
7	\$500,000
8	\$500,000
9	\$500,000
10	\$500,000

First, each cash flow has to be discounted back to today (Year 0). These cash flows need to be discounted by the OMB discount rate (as of 4/2001, the discount rate for a 10-year analysis is 5.4%). These types of calculations can be done using an HP-10 B calculator. Calculate Year 1 first. In order to calculate the present value of that cash flow, using the top line of the calculator, make the following inputs:

N = 1
I/YR = 5.4
FV = 300000
PV = ?

Example 10 (cont'd)

Based on these inputs, the present value of the cash flow, which will be received by the lessor in Year 1, is approximately \$284,630. The remaining cash flows can be discounted in a similar manner by substituting the Year (2-10) until all are discounted back to Year 0. The discounted numbers are as follows (may be slightly different to your calculations based on rounding differences between a financial calculator and the OA tool):

Year 1 \$284,630
Year 2 \$270,047
Year 3 \$256,211
Year 4 \$243,085
Year 5 \$230,631
Year 6 \$364,692
Year 7 \$346,008
Year 8 \$328,380
Year 9 \$311,462
Year 10 \$295,504

Total: \$2,931,100

The resulting present value for all these cash flows is approximately \$2,931,100. In order to determine the constant rent rate to charge the agency, Input the following numbers on the calculator and solve for the payment (Make sure the calculator is set for 1 payment per year):

N=10

I/YR = 5.4 (current OMB discount rate)

PV= 2931100

PMT=?

The payment equals \$410,409.10. This payment represents the constant payment that GSA will collect from the agency each year in order to "levelize" the rent. Based on a 20,000 RSF lease, the per square foot rate of this payment is \$20.52.

Example 11

Topic: Old Pricing of Rent vs. New Pricing of Rent

Reference: Chapter 1 Introduction

Issue: Under GSA's prior method of pricing space, through the use of construction cost multipliers applied to the various space classifications, agencies were charged for the initial cost of tenant improvements for as long as the agencies occupied the space. This duration could be thirty years or three years. No specific term associated with the premium charges for "special space" classifications, because the costs were not being amortized. Rather, the construction multipliers simply expressed the relationship between the cost to construct special space and the cost to construct typical office space. By assigning office space a value of 1.0, all other space types were expressed as a percentage of this standard. Thus, ADP space had a construction cost ratio of 1.63; labs a ratio of 1.77, general storage a ratio of 0.8, and so on. GSA's practice under old pricing was to take the appraised rent for office space, and then "multiply" that office space rent by the construction cost ratios for the different space types. So, for a given assignment, the total rent would be calculated by taking the square footage for each space classification type, times the construction cost ratio, times the appraised value of office space.

With the current pricing concept of an amortization period for tenant improvements, the practice of applying rent multipliers on an indefinite basis (for special space build-out) has ended.

Once a customer agency's tenant improvements have been fully amortized in a general purpose building, GSA's policy is to charge that customer agency an office rental rate. This is determined by an appraisal, and the rate is generally known as an "as is" office rate.

Example 11 (cont'd)

Below is an example of a “cross walk “ between how PBS priced rent under the old policy and how it is priced today. This is an example of a U.S. District Court tenant in a hypothetical federal building/courthouse.

Old Pricing of Rent

New Pricing of Rent

Amount of sq.ft (rentable)*	Rent Multiplier (Space Type)	Appraised Fully Serviced Office Rent Rate**	Total	Rent Component	Amount of Sq ft (rentable)	Rate	Total
3344	X 1.00	X \$17.39	= \$58,152	As Is Rate **	6864	X \$13.04	= \$89,507
81	X 1.42	X \$17.39	= \$2,000	General TI	6864	X \$4.21	= \$28,897
120	X 1.64	X \$17.39	= \$3,422	Operating Costs	6864	X \$4.35	= \$29,858
2343	X 2.03***	X \$17.39	= \$82,712	Cust TI	6864	X \$2.53	= \$17,366
370	X 1.19	X \$17.39	= \$7,657				
606	X 1.30	X \$17.39	= \$13,700				
6864	Per RSF rent rate = (\$167,643/6864)	\$24.42	\$167,643		Per RSF rent rate = (\$13.04+\$4.21+\$4.35+\$2.53)	\$24.13	\$165,628

*Although GSA previously appraised rates on usable square footage, for the purposes of comparing "apples to apples", the square footage and rates have already been converted to rentable.

**For simplicity of comparison, the appraised fully serviced office rate under old pricing equal to the as-is rate for "new" pricing.

***For this example, assume that the courtroom does not penetrate the slab in order to rentable square footages.

The \$24.42 and \$24.13 rates do not include security, parking or joint use.

Although the bottom line rents are very similar in this example, under old pricing the agency would be paying \$167,643 in perpetuity (for simplicity, assume no operating cost escalation). Looking at the right side of the table, under the current pricing policy, the tenant improvement costs (\$29,897 + \$17,366 = \$46,263) would “drop” off of the agency’s rent bill at the end of the amortization period. Provided they do not alter their space, the rent bill would then be reduced to \$119,365.

Example 12

Topic: Blended rate for a building, which has 60% warehouse and 40% office space.

Reference: Tenant Allowances for Warehouses, Chapter 2, Section 2.3.1
Building Classes, Chapter 3, Section 3.1

Issue: In the case of warehouses, the default tenant allowance is 20% of the general allowance, as adjusted for locality. If the tenant allowance is to be used to construct offices or other habitable spaces within a building which is classified on the basis of its pre-dominant use as a warehouse, then the tenant allowance is to be used to construct all the improvements necessary for that office (or other use). In a warehouse building, PBS charges a warehouse rental rate. There is nothing in that warehouse rental rate that would compensate PBS in the case of a federally-owned warehouse (or a private sector lessor in the case of a leased warehouse) for the typical shell elements present in office buildings (e.g., bathrooms and other building common amenities, and complete suspended ceilings with lights and HVAC above, etc., in the office area proper). The only way the building owner is compensated for these traditional office shell elements in warehouse buildings is by having all of the costs of the office build-out charged against the tenant allowance. The amortization of these TI costs in the Rent returns to the building owner the capital the owner invested in the non-warehouse fit-out.

It's true that the general rule, as spelled out in the Desk Guide, is that an appraised rate for office space is used to determine rent for any bldg. classified as a general purpose bldg., and an appraised rate for warehouse space is used for warehouse bldgs. There are, however, some hybrid cases, for which it is acceptable to get both an office and a warehouse rate, and blend the two rates at the CBR level, in precise proportion to the blend of the tenant space mix. Although this is currently not specified in the Desk guide, this Companion document authorizes the blending of two rates as an acceptable practice when appropriate. To be clear, blending rates isn't appropriate when the building is clearly a warehouse, and there are a few offices in the warehouse for the dock manager, the shipping clerk, etc. In that scenario, PBS policy is charge the warehouse rate, and, as the Desk Guide explains, recover higher rents for the office space through amortization of higher tenant improvement costs.

When blending rates, GSA provides the building shell and gives the tenant a conventional TI allowance; however, if a warehouse rate is chosen, then all embellishments beyond the warehouse shell are charged as tenant improvements. The region has discretion in where to set the TI allowance.

An example of how to calculate a blended rate for this type of scenario is as follows (NOTE: ALL AMOUNTS (SQ. FT, SHELL RATES AND TENANT IMPROVEMENT ALLOWANCES ARE ALL QUOTED AS USABLE FIGURES):

SSA Teleservice center has 100,000 square feet of space, 60,000 square feet are strictly warehouse space for records storage etc and the other 40,000 square feet are office and related use. The building has been appraised with two shell rates: \$15.00 for the office and related space and \$9.00 for the warehouse space. Operating Expenses are \$4.00 per square foot for office space and \$1.00 per square foot for warehouse space.

Example 12 (cont'd)

The tenant improvement allowance for this space is as follows:

Office : \$31.92 general component
\$ 6.38 customization component

Warehouse : \$ 6.38 general component (20% of general allowance)

Based on a 10 year Occupancy Agreement Term, the rent would be as follows:

Shell Rent would simply be $(40,000 \times \$15.00) + (60,000 \times \$9.00) = \$600,000 + \$540,000 = \$1,140,000 / 100,000 \text{ sq feet} = \11.40

Shell Rent = \$11.40

The amortized cost per square foot of the general TI component needs to be calculated. For simplicity, these can be blended and then solved as one payment. First, calculate the total amount used $((40,000 \text{ (office space)} \times \$31.92) + (60,000 \text{ (warehouse space)} \times \$6.38) = \$1,276,800 + \$382,800 = \$1,659,600$.

Then amortize the \$1,659,600 and over 10 years. The current Federal Financing Bank Rate is 4.985%. On an HP-10B calculator, input the following numbers (make sure it is set for 12 payments per year):

N = 10 (10 gold key N for 120 payments)
I/YR = 4.985
PV = 1659600
Solve for PMT
PMT = -17,590.467 (monthly payment)

Multiply this number by 12 to get an annual payment of \$211,086. This number is divided into the total square footage of 100,000 to equate to a per square foot payment of \$2.11

Amortized Tenant Improvement Used/
General \$2.11

In order to determine the operating costs per square foot, multiply the warehouse square footage by the warehouse operating expense rate $(60,000 \times \$1.00 = \$60,000)$ then add that number to the office square footage multiplied by the office operating expense rate $(40,000 \times \$4.00 = \$160,000) = \$220,000$. That number is then divided by the total square footage $(\$220,000 / 100,000)$ to calculate a square foot rate of \$2.20.

Operating Costs \$2.20

Market Rent Subtotal \$15.71

Finally, the amortized cost of the customization component for the office space needs to be calculated. However, for simplicity purposes and since every other component of the rent is blended, these costs will be distributed over the entire square footage. It can be calculated as follows:

Example 12 (cont'd)

The total amount used is $(40,000 \times \$6.38) = \$255,200$. We then take that number and amortize it over 10 years. On an HP-10B calculator, input the following numbers:

N=10 (10 gold key N for 120 payments)

I/YR = 4.985

PV= 255200

Solve for payment

PMT= -2,704.92 (monthly payment)

Multiply this number by 12 to calculate an annual payment of \$32,459. This number is divided into the total square footage of 100,000 to equate to a per square foot payment of \$0.33.

Although it seems odd to divide this into the total square footage because the customization component only addresses the office space, this whole example is based on building a blended rate for the entire square footage of both warehouse and office. Therefore, the cost of the customization component has to be spread across the entire square footage.

Amortized Tenant Improvement Used/ Customization	\$0.33
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Agency Rent subtotal	\$16.04
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Assume also that security, parking and perhaps joint use (if this is a multi-tenanted) building will also be added to this number. However, the main purpose of the example was to demonstrate the blended rate principle for the rare occurrence of a hybrid office/warehouse building.

Example 13

Topic : Forced Moves

Reference: Funding Responsibilities of a Forcing Agency, Chapter 5, Section 5.5

Issue: Agency ABC moved into 10,000 square feet of space (initial occupancy) in a Federal building for a ten year OA term commencing July 1, 2001 – June 30, 2011. For this occupancy, they were allotted the following amount of money for build out:

General Tenant Improvement Allowance: $10,000 \times \$31.92 = \$319,200$

Customization Tenant Improvement Allowance (Tier 3) : $10,000 \times \$9.58 = \$95,800$

They elected a zero customization tier and paid \$95,800 via RWA. Because this is an initial occupancy, GSA amortized the \$319,200 into the rent.

In Year 4 of their occupancy term, Agency XYZ, is in dire need of expansion space due to a new mandated requirement, requested 10,000 square feet of expansion space adjacent to their space, that just happens to be Agency ABC's space. They need this space quickly so they will use some of the existing buildout (valued at \$100,000) and make a few minor modifications to the space. They plan to move into the expansion space on August 1, 2005, shortly after the 4th anniversary of Agency ABC's OA term.

Question: What is agency XYZ's financial obligation to both PBS and Agency ABC?

- To Agency ABC, the undepreciated value of the lump sum payment (if any) that the displaced agency made for initial tenant improvements or alterations in the affected space. Straight-line depreciation will be used to determine the value. In this example, since the forced move occurs in Year 4 of a 10 year term, 40% of the value of the improvements have depreciated so Agency XYZ would owe Agency ABC, 60% of \$95,800 which equals \$57,480.00.
- To Agency ABC, the cost of their relocation, including physical move, move coordination, and relocation and installation of telecommunications, systems furniture and ADP equipment.
- To PBS, the remaining principal balance on any tenant improvements being amortized in Agency ABC's rent and that Agency XYZ does not plan to use. At the inception of the OA term, Agency ABC amortized \$319,200 into the rent. As of August 1, 2005, the principal balance of the improvements is calculated as follows:

First, solve for the monthly payment using the following assumptions:

120 payments, 4.985% interest rate (the interest rate in effect when the agency signed the OA and the rate at which the TIs are amortized), Present Value of \$319,200. Input all of these numbers on the top line of an HP-10B calculator to come up with a monthly payment of \$3,383.27. DO NOT CLEAR THE CALCULATOR.

Next, calculate the principal balance. Since August 1, 2005 represents the 49th month of occupancy, calculate the principal balance for that month as follows:

Public Buildings Service	GSA	Companion Document	chapter 2	3/15/02
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Example 13 (cont'd)

On the HP-10B calculator, press 49 than the INPUT KEY. Then press the gold key and AMORT (same as the FV key). Press the equal sign once to display the interest paid on the 49th payment, again to display the principal paid on the 49th payment and again to display the principal balance. In this case, the remaining principal balance is \$207,657. However, Agency XYZ plans to use \$100,000 worth of the existing improvements. Therefore, Agency XYZ will pay GSA a one-time lump sum payment of \$107,657 in STAR (as a miscellaneous billing adjustment), not by RWA, for the TIS they will not use in the expansion space. They will also amortize the \$100,000 of TIs they plan to use back into their new rent for the expansion space.

- To PBS, any increase in the Agency ABC's Rent at its new location, except for any difference in amortized tenant improvements, until the displaced agency has time to budget.

Note: For the time period between Agency ABC's "move out" and Agency XYZ's "completion date", Agency XYZ will pay the old rate of Agency ABC's space. Upon completion of Agency XYZ's new space, the new market rent takes affect.

Example 14

Topic: Multiple Amortization Terms, ROI Pricing

Reference: Amortization of the Tenant Improvement Allowances, Chapter 2, Section 2.3.2

Return on Investment Pricing, Chapter 7, Section 7.2

Issue: More than one amortization period can be entered into one client billing record (CBR) within STAR. This should be done in special cases only, as in new courthouse construction. The useful life rule for tenant improvements suggests that courtrooms and chambers built to a 50 plus year standard could be amortized with much of the office space over a period of 20 to 25 years, while the carpet and paint components of the allowance could be amortized over five years. Accordingly, PBS could amortize 80 percent or more of the build-out cost for 20 to 25 years and hyper-amortize the remaining build-out cost over five years. This has the effect of dropping an increment of the tenant improvement cost in the Rent at the five-year mark. Note: the amortization period cannot exceed the term of the OA.

Example :

GSA is constructing a new 500,000 RSF/400,000 USF courthouse. The U.S. District Court will occupy 250,000 usable square feet.

They are a Tier 6 agency and are allocated the following amount of money for tenant improvements:

General TI allowance = \$31.92

Customization allowance = \$19.15

The Courts plan to use the entire allowance, and it is estimated that carpet and paint will cost approximately \$10 per USF. The initial OA term is 20 years, and ROI pricing will be used to set the shell rate.

Questions:

If the cost of the carpet and paint was amortized for 5 years and the remainder of the tenant improvements were amortized for 20 years,

- 1) For Years 1-5 of the OA term, what would the per usable square foot rate be for amortized tenant improvement used/ general (Line 2 of the rent bill, Line 2a of the OA)?
- 2) For Years 6-20 of the OA term, what would the per usable square foot rate be for amortized tenant improvement used/ general (Line 2 of the rent bill, Line 2a of the OA)?
- 3) For Years 1-5 of the OA term, what would the per usable square foot rate be for amortized tenant improvement used/ customization (Line 5 of the rent bill, Line 5a of the OA)?
- 4) For Years 6-20 of the OA term, what would the per usable square foot rate be for amortized tenant improvement used/ general (Line 5 of the rent bill, Line 5a of the OA)?

Solution:

1) In order to calculate the amortized tenant improvement general, first divide that amount based on the amortization term. \$10.00 will be attributable to paint and carpet and will be amortized over 5 years. The remaining \$21.92 of general allowance used for buildout will be amortized over 20 years based on the assumption that the courtroom improvements will last much longer than the paint and carpet. In effect, the two general TI components will be calculated separately and then combined to one number on Line 2 of the rent bill or Line 2a of

Example 14 (cont'd)

the OA. These amounts will be amortized using the OMB discount rate (currently 5.35 % as of 4/01) plus 2% or 7.35%.

- \square $\$10.00 \times 250,000 = \$2,500,000$. The \$2,500,000 represents the present value of the “loan” to the agency to carpet and paint the space. Amortizing this over 5 years (monthly payments) at 7.35%, results in a monthly payment of \$49,917. Next, annualize this payment ($\$49,917 \times 12 = \$599,002$) and divide it by the total square footage (250,000), to calculate a per usable square foot rate of \$2.40.
- \square $\$21.92 \times 250,000 = \$5,480,000$. This number represents the remainder of the general TI allowance component for normal office space that could effectively be built out to last 20 to 25 years. Amortizing this over 20 years (monthly payments) at 7.35%, results in a monthly payment of \$43,645. Next, annualize this payment ($\$43,645 \times 12 = \$523,743$) and divide it by the total square footage (250,000), to calculate a per usable square foot rate of \$2.10.

The \$2.40 and the \$2.10 are added together and the resulting sum of \$4.50 is the per usable square foot rate of amortized tenant improvements used/ general. This number (converted to a rentable figure) will appear on Line 2 of the rent bill for Years 1-5 of the OA term.

2) Because carpet and paint is only amortized for 5 years, the \$2.40 will drop off of the rent bill after Year 5 (if entered into STAR correctly). Therefore, for Years 6-20, only the \$2.10 (converted to rentable) will appear on Line 2 of the rent bill.

3) The customized allowance is \$19.15 per usable square foot. Multiplying that number by 250,000, equates in \$4,787,500, which represents the cost to build out special items, preparations or finishes which are not typical to office space. In a courthouse situation, although these items could be built out at specifications to last 50 years, they will only be amortized for the term of the OA (20 years). Amortizing this number at 7.35% for 20 years (monthly payments), calculates to a monthly payment of \$38,130. Annualizing this payment ($\$38,130 \times 12 = \$457,558$) and divide it by the total square footage (250,000), a per square foot rate of \$1.83 is calculated. For Years 1-5, \$1.83 (converted to a rentable figure) will appear on Line 5 of the rent bill.

4) Because the customization allowance will be amortized for 20 years, the \$1.83 (converted to a rentable figure) will remain on Line 5 of the rent bill for Years 6-20 if entered into STAR correctly.

Example 15

Topic: Relet space in a Leased building

Reference: Lump Sum Payment Responsibilities and Options for Tenant
Improvements, Chapter 2, Section 2.3.4.
New Occupancies, Chapter 4, Section 4.1

Issue: In cases in which an agency will begin to occupy space which already has tenant improvements in place that were installed for a prior tenant, the customer agency can elect to fund the cost of modifying the space to accommodate its own requirements. This may occur in the case of leased space new to the PBS inventory, which contains the offered space, may contain tenant improvements from the previous tenant. PBS's policy in these cases is to require the prospective lessor to provide the full complement of tenant allowances based on the customer agency's tier. If acceptable to PBS and the customer agency, the lessor may be able to use some of the existing tenant improvements, but all demolition costs are to be borne by the lessor as part of the offered shell rate.

Example: A leased building in Anytown, USA currently has a large Government lease (240,000 rentable square feet) that comprises 5 different blocks of space as follows:

	<u>Square Footage</u>	<u>Tenant</u>
Block A:	55,000 RSF	NLRB
Block B:	45,000 RSF	SSA
Block C:	50,000 RSF	DOL
Block D:	40,000 RSF	INS
Block E:	50,000 RSF	FBI

DOL will be releasing 15,000 RSF in 120 days at the end of their 5-year OA term. INS requires 15,000 RSF in expansion space. Since they are directly adjacent to DOL, it will be easy for them to absorb that space. After touring DOL's space, they believe they can use most of the existing improvements; however, some demolition of walls, additional electrical outlets, private offices and new paint will be necessary to bring the space up to their requirements. INS is currently in Year 5 of a 10-year OA term. The original TIs will be amortized at the end of the 10-year term.

Example 15 (cont'd)

The estimated cost of new tenant improvements to the space is \$300,000. The full tenant improvement allowance allocated to this space is \$450,000. Because this is expansion space by INS, it is considered a new occupancy and therefore they are allowed the full TI allowance. However, as stated before, they will only be using \$300,000. Although they are allowed to pay for these improvements via RWA because it is also considered “relet” or “second generation” space, they are opting to have the Lessor amortize these costs and roll it into their existing rent. The Lessor’s TI amortization rate is 9.5%. Their current rent structure is as follows (in RSF):

Shell Rent (or “as-is”)	\$18.00
Amortized General	\$ 3.00
Operating Costs	\$ 4.00
Real Estate Taxes	\$ 1.50
Amortized Customization	\$ 1.50
Building Security	\$.18
PBS Fee	\$ 2.24
Total	\$30.42

Question:

If they roll the expansion space into the existing OA, what will their new total rent rate be for the remaining 5 years of the OA term?

Note: Solve for payments assuming the new space will go into effect at the beginning of Year 6.

- ☐ INS will be amortizing \$300,000 into the rent at 9.5% for 5 years (monthly payments). Solve for the payment (\$6,300.56), annualize the payment, ($\$6,300.56 \times 12 = \$75,606.70$); divide it by the TOTAL square footage of INS (40,000 + 15,000), to get a square footage rate of \$1.37. This number is added to the existing amortized general payment. However, since the square footage has changed the square footage rate will change accordingly. The new rate per RSF will be ($\$3.00 \times 40,000 \text{ square feet} = \$120,000 \text{ per annum}$ divided by the new square footage of 55,000 = \$2.18. The new total payment equals \$3.55 (\$2.18 + \$1.37)
- ☐ PBS fee - Currently the fee is based on a total contract value of \$28.00 (\$18 + \$3 + \$4 + \$1.50 + \$1.50) X 40,000 square feet = \$1,120,000 x 8% = \$89,600/40,000 = \$2.24. With the expansion space the PBS fee is based on a total contract value of \$28.14 (\$18 + \$3.55 + \$4 + \$1.50 + \$1.09) X 55,000 square feet = \$1,547,700 x 8% = \$123,816 /55,000 = \$2.25

Example 15 (cont'd)

The new components of the rent are as follows:

Shell Rent (or “as-is”) \$18.00

(will not change, shell rent is based on lease terms and does not need to be reset every 5 years)

Amortized General \$ 3.55

(Includes \$1.37 for new TI buildout of expansion space and reduces the original \$3.00 TI payment to \$2.18 per RSF based on the new square footage of 55,000)

Operating Costs \$ 4.00

Real Estate Taxes \$ 1.50

Amortized Customization \$ 1.09

(INS did not use any customization tenant improvement allowance; however, the total square footage of the assignment increased therefore the square footage rate is now (\$60,000 | 55,000 square foot or \$1.09 per square foot)

Building Security \$.18

PBS Fee \$ 2.25 *(based on new contract value)*

Total \$30.57

(Operating costs, real estate taxes, and building security will all remain the same because they are based on rates per square foot)

III. GLOSSARY

A

Actual Age	The number of years that have elapsed since construction of a structure was completed. Also called chronological age or historical age. (AI)
Amortization	The process of retiring a debt or recovering a capital investment, typically through scheduled, systematic repayment. (AI)
Amortization Term	The duration over which a loan is fully repaid through equal periodic payments, consisting of both principal and interest.
Annual Rent (GSA)	The sum total of all periodic payments made for space. These typically consist of shell rent, operating expenses, real estate taxes, amortized tenant improvement costs, premium services (e.g. day time cleaning, overtime utilities) joint-use charges, the GSA leasing fee, and security charges.
Appraisal	An unbiased estimate of value conducted by a qualified party.
Asset	Any owned property that has value, including financial assets and physical assets (real or personal property).
Assignment Inception (GSA)	Refers to date of agency move-in.

B

Basis Point	One one-hundredth of one percentage point; used to express changes in interest rates and in the yields of stocks and bonds. (AI)
Basic Rentable Area	The Usable Area (of the Office Area, Store Area or Building Common Area) and its share of the Floor Common Area on a floor. The total of all Basic Rentable Areas on a floor shall equal the Floor Rentable Area on that same floor. (BOMA)
Bid Bust (GSA)	A situation in which the bids to construct the building shell exceed the project budget for the shell. Tenant allowances cannot be used to make up the difference, and PBS must either seek additional funding or lower costs. The exception is

(AI) Taken from *The Dictionary of Real Estate Appraisal*, 3rd Edition, 1993 by the Appraisal Institute.

(GSA) - Term definition is unique to GSA.

	for prospectus level projects for which there is a cost overrun on the purchase of the site or on the construction of the shell. With the customer agency's consent, funds can be moved from the tenant allowance budget to the building shell budget.
BOMA	Building Owners and Managers Association International, a trade association of the office building industry, that developed a standard method of floor measurement in square feet for commercial real property. It also publishes annual statistics on office buildings.
Build-to-Suit Lease	Refers to a situation in which a developer constructs a facility to a lessee's specifications.
Building Common Area	The areas of the building that provide services to building tenants but which are not included in the Office Area or Store Area of any specific tenant. These areas may include, but shall not be limited to, main and auxiliary lobbies, atrium spaces at the level of the finished floor, concierge areas or security desks, conference rooms. Lounges or vending areas, food service facilities, health or fitness centers, daycare facilities, mail rooms, fully enclosed courtyards outside the exterior walls, and building core and service areas such as fully enclosed mechanical or equipment rooms. Excluded from Building Common Area are Floor Common Areas, parking areas, portions of loading docks outside the building line, and Major Vertical Penetrations. (BOMA)
Building Envelope	The walls, roof, and floors which enclose a heated or cooled space. (AI)
Building Rentable Area	The sum of all the Floor Rentable Areas. (BOMA)
Building R/U Ratio	The conversion factor that distributes the Building Common Area of a building. (BOMA)
Building Shell	The structural portion, common areas, common systems, demising walls, and other elements of a building. For occupancy by a tenant, tenant improvements are required.

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(GSA) - Term definition is unique to GSA.

C

Cancellation Rights (GSA)	A condition in the Occupancy Agreement that allows the client agency to terminate the OA before it expires and vacate the space without incurring severe financial penalties. The client must provide GSA with four months' notice prior to termination. (Similar to termination clause in private sector.)
Capital Improvements	In real estate usage, buildings and other structures which have a useful life beyond one year.
Capital Expenditure	Funds spent to improve an asset as distinguished from funds spent for operating expenses.
Capitalization	The conversion of income to value. (AI) <i>Also see Income Capitalization Approach.</i>
Capital Lease (GSA)	Any lease other than a lease-purchase that does not meet the criteria of an operating lease.
Capitalization Rate	Any rate used to convert income to value. (AI)
Cash Flow	-The periodic income attributable to interests in real property. (AI)
Cash-on-cash Ratio	The ratio of annual cash flow to the cash investment. Used in the pro forma analysis of prospectus projects and usually is based on the cash flow of first full year of occupancy.
Change Order	A change in the original plan of construction due to upgrading of material or the inclusion of additions. (AI)
Class of Building (general use)	The classification of office buildings according to features such as location, construction, condition, management, tenants, and amenities. Class A space is characterized by superior location and access; high-quality construction materials and condition; and professional management. Class A buildings are competitive with new buildings and attract high quality tenants. Class B buildings have good location, management, and construction, but may suffer some physical deterioration or functional obsolescence. Tenant standards are high, but rents are below those charged for space in new or Class A buildings. Class C buildings are older (15+ years) and may suffer notable physical deterioration and functional obsolescence. While Class C buildings are still a part of the active supply of office space, occupancy levels may be lower. (AI)

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(GSA) - Term definition is unique to GSA.

Class of Building (GSA)	PBS's pricing policy has four space classes: general use, warehouse, parking, and unique. A building's predominate use determines its class.
Cleaning Expense (GSA)	Includes labor costs for in-house and contract service, payroll, taxes, and fringe benefits, plus salaried supervisors and managers. Also includes expenses related to routine equipment and supplies required for cleaning of offices, elevators, public areas, restrooms and windows. Other cleaning expenses include specialized services such as trash removal, recycling, window washing, and carpet cleaning plus the costs of roads and grounds keeping services.
Common Area	-The total area within a property that is not designed for sale or rental, but is available for common use by all tenants, e.g., parking, recreation areas, public toilets and service facilities. (AI)
Common Area Maintenance (CAM)	The expense of operating and maintaining common areas. (AI)
Comparable	A shortened term for similar property sales, rentals, or operating expenses used for comparison; also called <i>comps</i> . (AI)
Construction Costs	The cost to build, particularly an improvement, usually including design, management and inspection as well as direct labor and materials, plus contractor overhead and profit. (AI)
Consumer Price Index (CPI)	A measurement of the cost of living determined by the U.S Bureau of Labor Statistics; the principal cost of living index and measure of inflation.
Continuing Occupancy (GSA)	Refers to a situation in which a tenant will continue to occupy its current space, under the guidance of a new OA, at the expiration of its current OA.
Contract Rent	The actual rental income specified in a lease.
Cost Approach	A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of or replacement for the existing structure. (AI)

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(GSA) - Term definition is unique to GSA.

Curable Depreciation	Items of physical deterioration or functional obsolescence that are economically feasible to correct. (AI)
Customization Component (GSA)	One of two components to the tenant improvement allowance that is specific to the client and is based on the client's normal space profile. It covers special items or finishes such as courthouses or holding cells.

D

Deferred Maintenance	Curable, physical deterioration that should be corrected immediately. (AI)
Delegation of Authority (GSA)	A GSA authorization for a federal agency to acquire and manage its own space.
Depreciation	1. In appraising, a loss in property value from any cause. 2. In accounting, an allowance made against the loss in value of an asset for a defined purpose and computed using a specified method. (AI)
Deterioration	Impairment of condition; a cause of depreciation that reflects loss in value due to wear and tear, disintegration, use in service, and the action of the elements. (AI)
Direct Costs	Costs for the materials and labor necessary to construct the building (also known as hard costs).
Discounting	The procedure used to convert periodic income and reversion into present value.
Discounted Cash Flow Analysis (DCF)	<p>The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst discounts each cash flow and the reversion to its present value at a specified yield rate. (AI)</p> <p>It is a method of the Income Capitalization Approach in order to estimate the value of an investment.</p>

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(GSA) - Term definition is unique to GSA.

Discount Rate	A yield rate of return used to convert future cash flows into present value. Expressed as a percentage rate.
Dominant Portion	The portion of the inside Finished Surface of the permanent outer building wall which is 50% or more of the vertical floor-to-ceiling dimension, at the given point being measured as one moves horizontally along the wall. (BOMA)

E

Easement	An interest in real property that conveys use, but not ownership. (AI)
Economic Life	The period over which improvements to real property contribute to property value. (AI)
Effective Age	The age indicated by the condition and utility of a structure. (AI)
Effective Gross Income (EGI)	The anticipated income from all operations of the real property after an allowance is made for vacancy and collection losses. Includes all income generated such as parking or vending income. (AI)
Effective Rent	The actual rental income paid by the tenant after accounting for any rental concessions.
Escalation Clause	A clause in an agreement that provides for the adjustment of a price or rent based on some event or index. (AI)
Escape Clause	A provision that allows a tenant to cancel a lease. Also called termination or exit clause. (AI)
Estate	A right or interest in property. (AI)
Expansion Space	Space acquired in addition to the amount of space occupied and agreed to under an existing lease (or Occupancy Agreement).
Expense Stop	A clause in a lease that limits the landlord's expense obligation because the lessee assumes any expenses above an established level. (AI)
External Obsolescence	The reduction in value caused by conditions outside of the property such as a local, regional, or national recession.

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(GSA) - Term definition is unique to GSA.

F

Face Rent	The rental rate quoted by the landlord that does not account for rental concessions.
Facility Condition Index (FCI)	Index developed by Vanderweil Facility Advisors that describes the ratio of the value of a property's existing deficiencies to the entire replacement value of the improvements.
Fair Market Value (GSA)	Fair market value should be based on current market appraisals if the building is an existing building. If the building is not yet constructed, fair market value is the Government estimate of the cost to construct a stand alone facility equal in size to the amount of space to be leased. This cost includes the estimated construction cost, plus the design cost, plus the management and inspection cost, plus the cost of the land necessary to construct the facility.
Fair Value (general use)	The cash price that might be reasonably anticipated in a current sale under all conditions requisite to a fair sale. A fair sale means that buyer and seller are each acting prudently, knowledgeably, and under no necessity to buy or sell. The cash price that might be received when the asset has had exposure to the open market for a reasonable time, considering the property type and local market conditions. See also market value. (AI)
Federal Budget Scoring	The process of estimating the budgetary effects of pending and enacted legislation and comparing them to limits set in the budget resolution or legislation. Scorekeeping tracks data such as budget authority, receipts, outlays, and the surplus or deficit.
Federal Finance Bank	An institution within the U.S. Treasury Department that buys (finances) bond quality debentures for other federal agencies at rates just above commensurate term U.S. Treasury bills.
Federal Funds Rate	The interest rate charged on loans made by banks with excess reserve funds to banks with deficient reserves. (AI)

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(GSA) - Term definition is unique to GSA.

Fee Simple Estate	Absolute ownership unencumbered by any other interest. Examples of properties with fee simple estates include vacant land and improved properties with short-term rental agreements, such as hotels and apartments. (AI)
Financial Summary (GSA)	The second page of the Occupancy Agreement that provides a preview of the rent bill.
Finished Surface	A wall, ceiling or floor surface, including glass, as prepared for tenant use, excluding the thickness of any special surfacing materials such as paneling, furring strips and/or carpet. (BOMA)
Fixed Expenses	Operating expenses that generally do not vary with occupancy and which prudent management will pay whether the property is occupied or vacant. (AI) <i>Usually refers to insurance and real estate taxes.</i>
Floor Area Ratio (FAR)	The relationship between the above-ground floor area of a building, as described by the building code, and the area of the plot on which it stands; often expressed as a decimal e.g., a ratio of 2.0 indicates that the permissible floor area of a building is twice the total land area. (AI)
Floor Common Area	The areas on a floor such as washrooms, janitorial closets, electrical rooms, telephone rooms, mechanical rooms, elevator lobbies, and public corridors which are available primarily for the use of the tenants on that floor. (BOMA)
Floor Rentable Area	The result of subtracting from the Gross Measured Area of a floor the Major Vertical Penetrations on that same floor. (BOMA)
Floor R/U Ratio	The conversion factor that, when applied to Usable Area, gives the Basic Rentable Area of the Office Area, Store Area or Building Common Area. (BOMA)

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(GSA) - Term definition is unique to GSA.

Floor Usable Area	The sum of the Usable Areas of Office Areas, Store Areas and Building Common Areas of a floor. The amount of Floor Usable Area can vary over the life of a building as corridors expand and contract and as floors are remodeled. (BOMA)
Forced Move (GSA)	The involuntary physical relocation, from one space assignment to another, of an agency tenant housed in GSA-controlled space initiated by another agency tenant or by GSA.
Free Rent	The occupancy of premises with no rental obligation; typically offered as a rental concession. (AI)
Functional Obsolescence	An element of accrued depreciation resulting from deficiencies or superadequacies in the structure. Can be curable or incurable. (AI)
Functional Replacement Value (FRV) (GSA)	<p>The Functional Replacement Value (FRV) is the construction budget estimate for a new building which would provide the same functionality (space types and amounts) as the existing building. The FRV estimate does not replicate an existing building's floor plate, materials, monumentality, or historic features. To calculate the FRV, the existing types and amounts of space are determined, multiplied by the cost to construct each type, adjusted for local construction indices, and escalated to the year planned for construction. The FRV calculation includes four (4) factors: 1) Type and amount of space – currently from the STAR data base, 2) Federal Building Fund (FBF) Rent construction factors, 3) State construction adjustment indices, and 4) Cost estimates for constructing general purpose office space.</p> <p>Data for 3 and 4 are published annually in the General Construction Cost (GCC) Review Guide for Federal Office Buildings.</p>
Funds from Operation (FFO) (GSA)	The net income that remains after deducting operating, security, and administrative expenses as well as repair and alterations (capital costs) from total income but before deducting depreciation. Similar to Net Cash Flow in private sector.

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(GSA) - Term definition is unique to GSA.

G

G&A Expense	General and Administrative expense. Also known as an indirect cost.
GSA-Controlled Space (GSA)	Space under the custody or control of GSA.
GSA Fee (GSA)	The client's payment for the services that GSA provides in acquiring and administering the space.
GSA Federal Protection G&A Expense (GSA)	Protection costs (Federal Protection Officers, guard contracts, alarm maintenance, etc.) which are not charged directly to buildings.
GSA Field Office G&A Expense (GSA)	Items such as salaries, ADP equipment for field office systems, furniture, training, equipment, etc., which are coded to regional headquarters organizations.
GSA National G&A Expense (GSA)	Refers to costs incurred by Central Office organizations such as: Administrator's Office, Office of the Chief Information Officer, General Counsel, etc. Includes items such as salaries, ADP equipment for national systems, furniture, training, equipment, etc.
GSA Regional G&A Expense (GSA)	Includes items such as salaries, ADP equipment for regional systems, furniture, training, equipment, etc., which are coded to regional headquarters organizations.
GSA-Initiated Move (GSA)	Any relocation action in GSA-controlled space which is involuntary to the client; is required to be effective prior to the expiration of an effective Occupancy Agreement. Occurs as a result of an emergency, or a GSA-initiated modernization/repair/alteration project. A forced move initiated by GSA.

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(GSA) - Term definition is unique to GSA.

General Component (GSA)	One of two parts of the tenant improvement allowance that covers the cost of typical space finish such as partitions, doors, and outlets.
General Use Space (GSA)	All types of space other than "warehouse," "parking," or "unique" space, as defined elsewhere in this glossary. Examples of general use space are office and office-related space such as: file areas, libraries, meeting rooms, computer rooms, mail rooms, training and conference, automated data processing operations, courtrooms, and judicial chambers. Storage space which contains different quality and finishes from general use space, but which is within a building where predominantly general use space is located, is in the category of general use space.
Gross Building Area	The total floor area of a building, including below-grade space but excluding unenclosed areas, measured from the exterior walls. (AI) It is not generally used for leasing purposes.
Gross Floor Area	The total area of all the floors of a building, including intermediately floored tiers, mezzanines, basements, etc., as measured from the exterior surfaces of the outside walls of the building. (AI)
Gross Lease	A lease in which the landlord receives stipulated rent and is obligated to pay all or most of the property's operating expenses and real estate taxes. (AI)
Gross Measured Area	The total area of a building enclosed by the Dominant Portion, excluding parking areas and loading docks (or portions of same) outside the building line. It is generally not used for leasing purposed and is calculated on a floor by floor basis. (BOMA)
Gross Rental Income	The total income attributable to real property before vacancy and operating expenses are deducted.
Ground Lease	A lease that grants the right to use and occupy land. Improvements made by the ground lessee typically revert to the ground lessor. (AI)

(AI) Taken from *The Dictionary of Real Estate Appraisal*, 3rd Edition, 1993 by the Appraisal Institute.

(GSA) - Term definition is unique to GSA.

H

Highest and Best Use	An appraisal term that defines the reasonably probable and legal use of vacant land or improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. (AI)
Holding Period	The term of ownership of an investment. (AI)
Hurdle Analysis (GSA)	The analysis conducted to determine if the appraisal-based rent meets PBS's minimum return objectives.

I

Income Capitalization Approach	A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated cash flows and reversion into property value. (AI)
Incurable Physical Depreciation	An element of accrued depreciation; a defect caused by physical deterioration that cannot be practically or economically corrected. (AI)
Indemnification Fee (GSA)	Space acquired in addition to the amount of space occupied and agreed to under an existing Occupancy Agreement.
Indirect Costs (general use)	Expenditures for items other than labor and materials (also known as soft costs.) Includes administrative costs, professional fees, financing costs, and lease-up costs. (AI)
Indirect Costs (GSA)	Any cost not directly charged to either a building or a project number. Also called overhead or G&A. If a building number or project number is not cited on Forms 49, 300, etc., the cost will be coded as indirect.
Initial / New Occupancy	Refers to the first time a tenant occupies a space. The space can either be in shell condition that is finished out or already finished from a previous tenant.
Initial Space Layout	The specific placement of workstations, furniture and equipment within new space assignments.

(AI) Taken from *The Dictionary of Real Estate Appraisal*, 3rd Edition, 1993 by the Appraisal Institute.

(GSA) - Term definition is unique to GSA.

Interest Rate	The annual rate at which money is lent.
Internal Rate of Return (IRR)	An annualized rate of return on capital that is generated within an investment over the holding period. It measures the return on any capital investment and is usually expressed as an annual percentage (return of) the amount invested. The IRR discounts all returns from an investment including returns from its termination, to equal the investment. It is the rate of discount that makes the net present value of an investment equal to zero. (See net present value). (AI)
Inventory	A summary or itemized list of the real property, and associated descriptive information, that is under the control of an entity.
Investment Value	The specific value of an investment to a particular investor or class of investors based in individual investment requirements; distinguished from market value, which is impersonal and detached. (AI)

J

Joint-Use Space (GSA)	Spaces such as cafeterias, conference rooms, credit unions, snack bars, and certain wellness/physical fitness facilities and child care centers, which are available for use by personnel of more than one GSA tenant agency. <i>Also see Common Area.</i>
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L

Lease	A written agreement between the property owner (lessor) and a tenant (lessee) that stipulates the conditions under which the tenant is entitled to use the property in return for periodic payments (rent) for a specified period of time.
Leaseback	An arrangement in which the seller of a property is obligated to lease the property from the buyer under terms and conditions that are not negotiable. (AI)
Lease-Purchase (GSA)	A type of lease in which ownership of the asset is transferred to the Government at or shortly after the end of the lease period.

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(GSA) - Term definition is unique to GSA.

Leased Fee Estate	Ownership held by a landlord with the right of use and occupancy conveyed by lease to a tenant(s). Properties that typically have leased fee estates are improved properties that are encumbered by long-term leases (over one year) such as office, retail, or industrial properties. (AI)
Leased space (GSA)	Space for which the United States Government has a right of use and occupancy by virtue of having acquired a leasehold interest.
Leasehold	The right of use and occupancy held by a tenant for a slated term under specified conditions.
Leasehold Improvements	Improvements or additions to leased property that have been made by the lessee.
Lessee	One who has the right to use or occupy a property under a lease agreement; the leaseholder or tenant. (AI)
Lessor	One who holds property title and conveys the right to use and occupy the property under a lease agreement; the landlord. (AI)
Levelized Rent (GSA)	A process that GSA uses to convert a series of uneven rent payments to a level, annualized rent.
Lump Sum Payment (GSA)	A payment made for space-related services or tenant improvements not amortized in the rent. It is usually made through an RWA from funds that have not been budgeted for Rent.

M

Maintenance	<p>-Keeping a property in condition to perform its function efficiently. Maintenance does not extend the useful life of the property or increase the value. (AI)</p> <p>-Includes all expenses required for general repairs, maintenance, and upkeep of the facility. Labor costs include payroll, taxes, and fringe benefits for employees and contracted workers (operating engineers, general maintenance personnel, and chief building engineers). Repairs and maintenance items include elevators; heating, ventilation, and air conditioning; electrical; structural/roof; plumbing; and fire and life safety systems as well as maintenance supplies. (GSA)</p>
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(GSA) - Term definition is unique to GSA.

Major Vertical Penetrations	Includes stairs, elevator shafts, flues, pipe shafts, vertical ducts, etc. and their enclosing walls. Also includes atria, lightwells and similar penetrations above the finished floor. Does not include vertical penetrations built for the private use of a tenant occupying office areas on more than one floor. Also excludes structural columns, openings for vertical electric cable or telephone distribution, and openings for plumbing lines. (BOMA)
Market Rent	The rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space. (AI)
Market Value	The most probable price that prudent, knowledgeable buyers and sellers agree on as of a given date. (AI)
Master Lease	A controlling lease under which all other interests in the real property are subordinate; for example, if a master lease is for a 5-year term, a sublease cannot legally exceed 5 years.
Most Appropriate Use	The land use that is in the best interest of the community as a whole and will promote the greatest good for the greatest number; not necessarily the highest and best use. (AI)

N

Net Cash Flow – private sector	The net income that remains after deducting capital expenditures from the NOI but before deducting depreciation.
Net Lease	A lease in which the tenant pays all the property charges (operating costs, real estate taxes, etc.) in addition to the rent. (AI)
Net Operating Income (NOI) (general use)	The net income that remains after all operating expenses are deducted from the effective gross income but before depreciation is deducted. Is calculated before deducting capital expenditures. (AI)

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(GSA) - Term definition is unique to GSA.

Net Income (GSA)	The net income that remains after all operating, security, and administrative expenses as well as repairs and alterations (capital expenditures) and depreciation are deducted.
Net Present Value (NPV)	The difference between the present value of all positive cash flows, and the present value of capital outlays, or negative cash flows. (AI)
Net Rent (GSA)	The amount of consideration for use of the land and buildings, or portions of buildings, during the term of the lease, excluding the cost of any services such as heat, light, water, and janitorial services. All costs that are amortized, such as initial space alterations up to the tenant allowance limit, as well as the cost of any GSA lump sum payments, as if they were amortized over the term of the lease, are included. Also known as the average annual rental.
Nominal Interest Rate	A stated or contract rate; an interest rate, usually annual, that does not necessarily correspond to the true or effective rate of growth at compound interest. (AI)
Non-cancelable Space (GSA)	Assigned space under the terms and conditions of the Occupancy Agreement for which the client agrees to pay GSA all out-of-pocket expenses incurred until expiration of the OA even if the client vacates the space sooner.
Non-Economic Rent	Rent that does not reflect what is paid in the local market, specifically above market rent.

O

Occupancy Agreement (OA) (GSA)	A written agreement descriptive of the financial terms and conditions under which GSA assigns, and a client agency occupies, the GSA-controlled space identified therein. Often referred to as an OA.
Occupancy Agreement Tool (GSA)	A software application currently based on Microsoft Access that has been specially designed to make the development of an Occupancy Agreement easier and more accurate.
Occupancy right (GSA)	An entry on the Occupancy Agreement that identifies the space as being leased, government-owned, etc.

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(GSA) - Term definition is unique to GSA.

Office Area	The area where a tenant normally houses personnel and/or furniture, for which a measurement is to be computed. (BOMA)
Operating Expenses	The periodic expenditures necessary to maintain the real property and continue production of the income. (AI)
Operating Income	Earnings from normal operations that do not take into account proceeds from nonrecurring items.
Operating Lease (GSA)	<p>A lease that meets all of the criteria listed below. If the criteria are not met, the lease will be considered to be a capital lease or a lease-purchase.</p> <ul style="list-style-type: none"> -Ownership of the asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease period. -The lease does not contain a bargain-price purchase option. -The lease term does not exceed 75% of the estimated economic lifetime of the asset. -The present value of the minimum lease payments over the life of the lease does not exceed 90% of the "fair market value" of the asset at the inception of the lease. -The asset is a general purpose asset rather than being for a special purpose of the Government and is not built to unique specification of the Government lessee. -There is a private sector market for the asset.
Option	A legal contract, typically purchased for a stated consideration, that permits but does not require one to buy, sell, or lease real property for a stipulated period of time in accordance with specified terms; a unilateral right to exercise a privilege. (AI)
Option Term	A stipulated time during which the holder of an option can exercise his or her rights under the option agreement. (AI)
Out Lease (GSA)	A contract for use of a site between PBS and private sector tenants.

(AI) Taken from *The Dictionary of Real Estate Appraisal*, 3rd Edition, 1993 by the Appraisal Institute.

(GSA) - Term definition is unique to GSA.

P

Parking	Surface land, structures, or areas within structures designed and designated for purpose of parking vehicles.
Pass-Through	A form of rent escalation in which the tenant pays a direct share of the operating expenses. (AI)
Payback Period	The length of time required for the stream of cash flows produced by the property to equal the original cash outlay. (AI)
Percentage Lease	A lease in which some or all of the rent is based on a specified percentage of the volume of business achieved by the tenant. These types of leases are most frequently used for retail properties. (AI)
Personal Property	Identifiable portable and tangible objects that are considered by the general public to be “personal,” e.g. furnishings, artwork, machinery and equipment; all property that is not classified as real estate. Personal property includes movable items that are not permanently affixed to, and part of, the real estate. (AI)
Physical Life	The total period a building lasts or is expected to last as opposed to its economic life. (AI)
Physical Deterioration	Normal wear and tear on the structure. Can be curable or incurable. (AI)
Portfolio Leases (GSA)	1. leases that contain terms that grant a potential future equity interest in the leased property (e.g. ownership reversion, a bargain purchase option, or equity participation); or 2. long-term master leases, usually negotiated to effect the consolidation of several agencies, the preponderance of which may be expected to have individual occupancy terms, which differ from the term of the applicable master lease.
Post-Award Services (GSA)	A set of activities which can include space layout, interior design, construction, construction management, price analysis and negotiation, inspection, physical moves of furniture and equipment, relocation management, move coordination, personal property purchases, and integration of all of the above.

(AI) Taken from *The Dictionary of Real Estate Appraisal*, 3rd Edition, 1993 by the Appraisal Institute.

(GSA) - Term definition is unique to GSA.

Post-Initial Occupancy (GSA)	Refers to a tenant already occupying a space under an existing OA. Generally used for any TI's that are done for an existing tenant before the expiration date of the OA.
Potential Gross Income (PGI)	Total potential income attributable to the real property at full occupancy before operating expenses are deducted. (AI)
Present Value (PV)	The value of a future payment or series of future payments discounted to the current date or to time period zero. (AI)
Prime Rate	The interest rate that a commercial bank charges for short-term loans to borrowers with high credit ratings. (AI)
Principal	A capital sum invested; a payment that represents partial or full repayment of the capital loaned or invested, as distinguished from the payment of interest. (AI)
Privity	An interest in a transaction contract or legal action to which one is not a party arising out of a relationship to one of the parties.
Profit	1. The amount by which the proceeds of a transaction exceed its cost. 2. In accounting, an increase in wealth that results from the operation of an enterprise. (AI)
Pro Forma	An operating statement used to project income and operating expenses for a future period based on specified assumptions.
Property Management Services	Conventionally, activities of operating a building: vacuuming, mopping, and dusting, emptying trash, window washing, operating and maintaining the building systems, snow removal, concierge services, grounds maintenance, and answering tenant service calls.
Provisional Space (GSA)	Space that GSA obtains for agencies on an immediate basis if the agency is forced to vacate its assigned space by a natural or man-made disaster or emergency.

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Public Area (GSA)	Any area of a building under the control and custody of GSA which is ordinarily open to members of the public, including lobbies, courtyards, auditoriums, meeting rooms, and other such areas not assigned to a lessee or client agency.
Public-Private Partnership	An arrangement by which the Federal government contributes real property, and a private company contributes financial capital and borrowing ability to redevelop or renovate real property to serve, in part or in whole, a public need.

R

R&A Expense (GSA)	Repair and Alteration expense paid out of GSA BA 54 and 55 funds. Similar to capital expenditure in private sector.
Real Estate	The physical land and structures on the land, if any. (AI)
Real Estate Market	The interaction of individuals who exchange real property rights for other assets, usually money. The health of a particular real estate market will have a direct impact on the property values within that market. (AI)
Real Rate of Return	The return on an investment adjusted for inflation. (AI)
Real Property	The interests and rights inherent in the ownership of physical real estate. A right or interest in real property is also referred to as an <i>estate</i> . Partial interests are created by selling, leasing or otherwise limiting the unencumbered use of the property. (See Fee Simple, Leased Fee and Leasehold). (AI)
Recapture Rate	The annual rate at which invested capital is returned to the investor over a specified period. The term is used when some income provision must be made to compensate for the loss of invested capital. (AI)
Reimbursable Services (GSA)	Space-related services other than those designated by GSA as standard level.
Reimbursable Work Authorization (RWA) (GSA)	A GSA funding document used by client agencies to pay GSA for above standard level space-related services.

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Relet / Second Generation Space	Refers to space that is already finished out that will be occupied by a new tenant.
Renewal Option	Allows a tenant to extend the lease term for one or more prescribed period of time.
Rent (general use)	An amount paid for the use of land, improvements or a capital good. (AI)
Rent (GSA)	The cost charged by GSA for space and related services to its agencies with tenancy in GSA-controlled space.
Rentable Area (general use)	<p>-The amount of space on which the rent is based; calculated according to local practice. Generally includes usable area plus the tenants' proportional share of common building areas such as rest rooms, exit stairways, and lobbies. (AI)</p> <p>-The Usable Area of an Office Area or Store Area with its associated share of Floor Common Areas and Building Common Areas. The total of all Rentable Areas equals the Building Rentable Area for the building. (BOMA)</p>
Rentable Square Footage (GSA)	The amount of space as defined in Building Owners and Managers Association (BOMA)/ American National Standards Institute (ANSI) Standard Z65.1-1966. The BOMA/ANSI standard also defines "gross," "usable," and "floor common" areas, and any references to these terms in this glossary refer to the BOMA/ANSI standard definitions. This standard has been adopted in accordance with GSA's desire to adopt nationally recognized industry standards to the extent possible.
Rent Concessions	Discounts or other benefits paid by the landlord to the tenant, usually in the form of additional tenant improvements, moving allowances or free rent. (AI)

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Replacement Cost	The estimated cost to construct a building with equivalent utility to the existing building, using modern materials and current standards, design and layout. (AI)
Replacement Reserves	<p>-Funds that provide for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life. Also known as replacement allowance. (AI)</p> <p>-Funds set aside from net operating income to pay for renovation or replacement of short-lived assets. (GSA)</p>
Reproduction Cost	The estimated cost to construct an exact duplicate or replica of the subject building, using the same materials, construction standards, design, layout and quality of workmanship, and including all the deficiencies, superadequacies and obsolescence of the existing building. (AI)
Requirements Development (GSA)	The activity of assembling a space program of requirements (POR) for a given organization. A POR is a summary of space needs, with both quantitative and narrative elements. It provides information, usually by subsets of the organization, about what types of space are needed, and identifies a workstation that is typical for the eventual layout. The POR also identifies which groups work together and consequently need to be located near each other.
Return of Capital	The recovery of invested capital, usually through income and / or reversion. (AI)
Return on Capital	The additional amount received as compensation (profit). Same as the interest or yield rate. (AI)
Reversion	The lump sum benefit that an investor receives at the termination of an investment. (AI)
Risk Analysis	Quantitative methods used to assess risk by measuring the probability of various occurrences. Risk analysis examines the potential change in market conditions and property performance. (AI)
ROI	Return on Investment.
R/U Ratio (Rentable/Usable)	The conversion factor that, when applied to Usable Area, gives the Rentable Area of Office Area or Store Area. (BOMA)

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S

Safe Rate	The minimum rate of return on invested capital. Theoretically the difference between the total rate of return and the safe rate is considered a premium to compensate for risk, the burden of management, and the illiquidity of the capital invested. (AI)
Sale-Leaseback	A financing arrangement in which property is sold by its owner-user, who simultaneously leases the property from the buyer for continued use. (AI)
Sales Comparison Approach	A set of procedures in which a value indication is derived by comparing the property being appraised to similar properties that have been sold recently. (AI)
Sandwich Lease	A lease in which an intermediate, or sandwich, leaseholder is the lessee of one party and the lessor to another. The owner of the sandwich lease is neither the fee owner nor the user of the property; he or she may be a leaseholder in a chain of leases, excluding the ultimate sublessee.
Schematic Design	The phase of design services in which the design professional consults with the owner to clarify the project requirements. A statement of estimated construction cost is often submitted at this time. (AI)
Shell rent (GSA)	Rate charged for space that includes no services or operating costs, tenant improvements or alterations, including partitioning, finishes or furnishings. PBS pricing policy requires that shell rent in owned buildings be re-appraised every five years.
Short-Lived Item	A building component with an expected remaining economic life that is shorter than the remaining economic life of the entire structure. (AI)
Space (GSA)	The area within the confines of buildings, and land incidental to the use thereof, which is under the custody and control of a federal agency.

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Space Assignment or Assigned Space (GSA)	A transaction between GSA and a client agency that results in a client agency's right to occupy certain GSA-controlled space in return for client agency payment to GSA for use of the space. Space assignment rights obligations and responsibilities not covered in this guide are formalized in an Occupancy Agreement.
Space Category (GSA)	A designation of a type of space, based upon the predominate use of the space. There are four categories used by GSA for billing purposes: General use, Parking, Warehouse and Unique.
Space Planning	The process of using recognized professional techniques of programming, planning, layout and interior design to determine the best internal location and the most efficient configuration for satisfying agency space needs.
Space Requirements (GSA)	A summary statement of an agency's space needs. These requirements will generally include information about location, square footage, construction requirements, and duration of the agency's space need. They may be identified in any format mutually agreeable to GSA and the agency.
Special-Purpose Property	A limited-market property with a unique physical design, special construction materials, or a layout that restricts its utility to the use for which it was built. (AI)
Special Space (GSA)	Space which has unusual architectural/construction features, requires the installation of special equipment, or requires disproportionately high or low costs to construct, maintain and/or operate as compared to office or storage space. The phrase "special space" generally refers to space which has construction features, finishes, services, utilities, or other additional costs beyond those specified in the "tenant general allowance" (e.g. courtrooms, laboratories).
Special Space Alterations (GSA)	Those alterations required by client agencies that are beyond the standard alterations provided by GSA to meet a particular classification, e.g., general purpose or warehouse, and permit occupancy of the space.
Specifications	Written instructions to the builder that contain all necessary information pertaining to dimensions, materials, workmanship, style, fabrication, colors, and finishes. (AI)

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Standard Building Services	Real property related services equivalent to those found in commercially comparable types of space.
Store Area	The area of an office building suitable for retail occupancy. Store Areas are included in Floor Rentable Area and Rentable Area. (BOMA)
Sublease	An agreement in which the lessee in a prior lease conveys the right of use and occupancy to another. The lessor maintains ownership and the lessee retains all of its obligations under the lease; terms that cannot exceed that of a master lease. (AI) and (GSA)
Super Structure	The portion of a building that is above grade. (AI)
Swing Space	Space that an agency occupies temporarily, usually while its long-term leased space is rehabilitated or modernized.

T

Telecommunications	Electronic processing of information, either voice or data or both, over a wide variety of media (e.g., copper wire, micro wave, fiber optics, radio frequencies), between individuals or offices within a building (e.g. local area networks), between buildings and between cities.
Tenant Improvement (TI)	The installation of finished tenant space, subject to periodic change for succeeding tenants.
Tenant Improvement Allowance	A financial allotment for finishing and customizing the space to the client's specifications.
Term of occupancy (GSA)	Amount of time, usually expressed in months, the Occupancy Agreement will be in effect.
Tort	Damage, injury or a wrongful act done willfully, negligently, or in circumstances involving strict liability, but not involving breach of contract for which a civil suit can be brought.
Total Rent (GSA)	The sum of all the costs GSA incurs in providing space for a client agency. (See gross rental income)
Triple-Net Lease	A net lease under which the lessee assumes all expenses of operating the property, including both fixed and variable expenses. (AI)

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U

Unique Space (GSA)	Space for which there is no commercial market comparable, e.g., border stations and bird sanctuaries.
Usable Area	<p>-The actual occupiable area of a floor or an office; computed by measuring the finished surface of the office side of corridor and other permanent walls, to the center of partitions that separate the office from adjoining usable areas, and to the inside finished surface of the dominant portion of the permanent outer building walls. No deductions are made for columns and projections necessary to the building. (AI)</p> <p>-The measured area of an Office Area, Store Area, or Building Common Area on a floor. The total of all the Usable Areas for a floor shall equal Floor Usable Area of that same floor. ((BOMA)</p>
Useful Life	The period of time over which a structure may reasonably be expected to perform the function for which it was designed. (AI)
Use Value	<p>The value a specific property has for a specific use. Also known as value-in-use. (AI)</p> <p>Use value focuses on the value the real estate contributes to the enterprise of which it is a part, without regard to the property's highest and best use or the dollars that might be realized upon its sale.</p>
Utilities	Includes the cost of all utilities (electricity, gas, oil, purchased steam and hot water) used by the facility and its occupants. (GSA)

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V

Vacancy Rate	The percentage of building area not occupied or obligated compared to the total building area. (GSA)
"Vanilla" Office Space (GSA)	<p>Space that has been finished with tenant improvements to the level of being functional for the tenant. The improvements include typical ratios of normal office space finish components, such doors, partitions, carpeting, electrical and telecommunication outlets or standard work letter items.</p> <p>Consists of the level of tenant improvements that are covered by the general component of GSA's tenant improvement allowance.</p>
Variable Expenses	Operating expenses that generally vary with the level of occupancy or the extent of services provided. (AI) <i>Usually refers to management, administration, utilities, cleaning, and repair and maintenance expenses.</i>

W

Warehouse Space	Space, which is contained in a structure primarily intended for the housing of files, records, equipment, or other personal property, and is not intended for housing personnel and office operations. Warehouse space generally is designed and constructed with a lower degree of installations and finishes, such as concrete flooring, exposed ceilings, unfinished perimeter and few dividing partitions. Warehouse space also is usually heated but not air-conditioned, and is cleaned to lesser standards than office space.
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Warm Lit Shell	Same as shell definition in Desk Guide. Includes completed building common areas and floor core areas that are ready for installation of tenant build-out.
Workspace (GSA)	Federally controlled space in buildings and structures (permanent, semi-permanent, or temporary) which provides an acceptable environment for the performance of agency mission requirements by employees or by other persons occupying it.
Work Letter	An agreement, usually part of a lease, that specifies the level of interior finish and equipment that the landlord is to provide to the tenant, including lighting, carpeting, partitioning, door allowance, and electrical capacity. (AI)

Y

Yield Capitalization	The capitalization method used to convert future cash flows into present value by discounting each future cash flow at an appropriate yield rate. (AI)
Yield Rate	A rate of return on capital, usually expressed as a compound annual percentage rate. A yield rate considers all expected property benefits, including the proceeds from sale at the termination of the investment. Yield rates include the interest rate, discount rate, internal rate of return, overall yield rate, and equity yield rate. (AI)

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ABBREVIATIONS

<u>Abbreviation</u>	<u>Definition</u>
ADA	Americans with Disabilities Act of 1990
A/E	Architect/Engineer
ANSI/BOMA	American National Standards Institute/Building Owners and Managers Association
AOC	Administrative Office of the Courts
BAFO	Best and Final Offer
CAD	Computer Aided Design
CAM	Common Area Maintenance
CBR	Client Billing Record
CBD	Central Business District
COR	Contract Officer's Representative
CPI	Consumer Price Index
CRJ	Classification for Courtrooms
DCF	Discounted Cash Flow
DID	Design Intent Drawings
DOJ	Department of Justice
EA	Environmental Assessment
EGI	Effective Gross Income
EIS	Environmental Impact Statement
FAR	Floor Area Ratio
FFB Rate	Federal Finance Bank Rate
FF&E	Furniture, fixtures, and equipment
FFO	Funds from Operation
FMR	Federal Management Regulation
FMV	Fair Market Value
FRV	Functional Replacement Value
G&A	General and Administrative
GM&A	General Management and Administrative
HABU	Highest and Best Use
HVAC	Heating, Ventilation and Air Conditioning
IRR	Internal Rate of Return

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MOU	Memorandum of Understanding
NOI	Net Operating Income
NPV	Net Present Value
OA	Occupancy Agreement
OTFO	Other than full and open competition
POR	Program of Requirements
R&A	Repair and Alteration
R/U Ratio	Rentable Usable Ratio
ROI	Return on Investment
RWA	Reimbursable Work Authorization
SFO	Solicitation for Offers
TFC	Tenant Floor Cut
TI	Tenant Improvements

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IV. RENT BILLING

Introduction:

In June 1998, PBS adopted an inventory and Rent billing system: STAR (**S**ystem for **T**racking and **A**dministering **R**eal-property). It is through STAR that PBS bills, collects and adjusts agencies' Rent bills. This chapter will address facets of PBS rent billings.

The Rent Estimate:

Federal law requires that GSA's Administrator set rates for the rent and services that PBS provides to Federal agencies. The law also requires the Office of Management and Budget (OMB) to approve these rates prior to PBS' submission to the agencies. In order to meet the Federal Government's budget cycle, PBS must project rates for a given year ahead of the start of agencies' budget preparation, therefore PBS must submit a 'Rent Estimate' in early spring for OMB's review and approval. After OMB reviews and approves the Rent Estimate at the agency and bureau level, PBS releases a detailed estimate (per client billing record (CBR)) to agencies for their use.

Agencies incorporate the projected rates and amounts for the space they occupy into their Budget request and also complete the OMB circular A-11-Exhibit 54 (Space Budget Justification). PBS provides assistance to the agencies in preparing this report by providing them information gathered from the PBS regions regarding the agencies' known plans for changes to their work space. Generally, after the Rent Estimate data download is performed from the February billing, the PBS regions have an opportunity until the following June to submit inventory changes to the Rent Estimate by spreadsheet to the Central Office Revenue Division. Advanced notification must also be made to the local agency to provide notice of the change.

Rent Billing System:

Currently, PBS uses two billing methods to collect rent income. They are the Department of Treasury's Intra-Governmental Payment and Collection system (IPAC) and the GSA Billed Office Address Code (BOAC) system.

IPAC is an automated billing and collection system accessed through the Government On-line Accounting Link System (GOALS) maintained by the Department of Treasury. Approximately 95% of all Rent receipts are collected using the Treasury IPAC system.

The second billing system is the BOAC, a manual payment system where agencies make payment for goods and services with Treasury checks or a Voucher and Schedule of Withdrawal and Credit (SF 1081). Generally, DOD agencies are on this system. Payments made using the SF 1081 must be recorded by the paying agency on their Statement of Transaction (STF 224) by their Finance office.

Public Buildings Service	GSA	companion document	chapter 4	1/10/02
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GSA encourages the use of the automated IPAC system. It provides a faster method of paying and resolving billing issues, reduces paperwork, and allows for rapid transfer of funds.

Bills for both billing systems are calculated on the 15th of the month, every month. A record of the bill, and of the IPAC transaction for customers on the IPAC system, is mailed to the customer shortly after this calculation is performed.

Problem Resolution:

A client agency has three informal (3) options available to resolve any billing discrepancy. First, the client agency should contact the GSA employee whose telephone number and electronic address appear on the rent bill. If no satisfactory resolution is reached, a second point of contact is the Regionally appointed person (Billing Facilitator) whose name is on the monthly Rent bill cover letter. If the matter cannot be resolved at either of these levels, the third contact is the Revenue Division of the PBS National office.

Agencies are encouraged to communicate with the realty specialist in the regions with regard to the month or year they want their adjustment to appear on the rent bill.

If none of the above contacts can resolve the problem in a timely manner, an IPAC agency may chargeback all or a portion of the rent bill. The agency must contact Fort Worth Finance Office and document the reason for the dispute in writing via a GSA form 2972 for IPAC, form 2992 for BOAC, or an official letter.

Department of Treasury regulation, (Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies; part 6 Volume 1, T/L 541, Section 4070) allows claims up to 90 days after the issuance of the bill. PBS has, in the past been much more lenient with our tenants with regard to this Treasury regulation. It is PBS's policy that a refund/charge for billing errors will be given retroactive to the date of the error, but no earlier than the beginning of the previous fiscal year. Some case by case exceptions will apply as deemed appropriate by the PBS' regional staff. Customer agencies should make an attempt to contact PBS with all adjustment requests within the initial billing month of the error. The final responsibility for reviewing and requesting sufficient funds to pay for PBS rent charges rests with the individual customer agency.

Billing Process and Cycle:

The monthly Rent bills are generated (from the STAR system) after the 15th of every month and mailed to agencies by the last week of the month. All input into STAR on the 16th or after will be shown on the following month's rent bill. With IPAC agencies, payment is made through the IPAC system the week the rent bills are mailed. BOAC agencies should pay as soon as they receive their rent bills.

Public Buildings Service	GSA	companion document	chapter 4	1/10/02
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Occupancy Agreement:

PBS requires its customers to sign Occupancy Agreements (OA). The OA stipulates the description of the space and services GSA is to provide to the agency, a compendium of clauses, a financial summary of costs and rates to be used and a signature page. A signed OA is the agency's commitment of funds and GSA's commitment of space, services, and billing rates. Without a signed OA, GSA is under no obligation to provide space or services. Once everything has been agreed, GSA enters this information into STAR to bill the agency. In STAR, a Client Billing Record along with its associated rate records describe the terms of the OA.

Rent Charges for Space:

When a Client Billing Record (CBR) is create, expires or a building shell rate expires, a new rate is loaded into STAR (based on an agency's occupancy agreement and classification of space occupied; i.e. owned – appraisal, lease - passthrough). There are 4 main ownership classifications, each with their own rules for billing: (a) Leased, (b) Owned, (c) USPS and (d) Federally Owned Border Station. Agencies make payments to PBS for the space they occupy under OMB object class 23.1(Rent Payment to GSA).

a. Leased buildings rates are obtained from the lease agreement and any subsequent written adjustments (like yearly CPI) between PBS and the lessor. These rates represent a direct pass-through from the lessor to the client with a fee for PBS' administration of the lease property.

b. Owned building rates are based on Fair Annual Rental (FAR) appraisals. The Office of Portfolio Management oversees the Rent appraisal process in which the Regional appraiser records Rent rate data from FAR appraisals into the Appraisal Data System (ADS). The ADS is a nationally integrated web-based appraisal database. It is from this national database that new Rent rates for a particular CBR are pulled for the Rent Estimate. To commence billing, the Regions have the responsibility of loading STAR with the appropriate Rent rates from the ADS that were used as the basis for the Rent Estimate for a particular fiscal year.

c. USPS buildings rates are set by USPS and passed through by PBS to its occupying tenants. The USPS provides annual rates per CBR for base rent, operating cost, security charges and parking. These rates are loaded by the Regions into STAR annually. There is a 4% PBS fees for USPS buildings.

d. Federally Owned Border stations Rent rates are based on Return-on-Investment methodology as promulgated by the Pricing Desk Guide, 2nd Edition. The Office of Portfolio Management compiles Border Station Rent data from the Regions and furnishes the data to the Revenue Division via spreadsheet for use in preparing the rent estimate. The spreadsheet contains the value of the base rent, operating cost and total rent by building. The rates for base rent and operating cost are determined by dividing the dollar amounts for

Public Buildings Service	GSA	companion document	chapter 4	1/10/02
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each by the assigned rentable square feet within the building. The assigned square feet in the building do not include the exempt agencies. These rates are valid only for one fiscal year. At the beginning of each fiscal year, new rates are loaded into STAR to generate the Rent bill.

Rent Charges for Other Space:

PBS also charges for Antenna licenses, under OMB object class 25.3 which is not classified as rent but as Other Services. Antenna rates are compiled from the regions by the office of Portfolio Management (PT) and are loaded into STAR by the Regions. National rates may be used when local data are available.

Security Cost:

There are 3 types of security costs which appear on the Rent bill. They are (a) Basic, (b) Building Specific Operating cost and (c) Building Specific Amortized Capital cost. The Federal Protective Service provides the Revenue Division these costs each year. At the beginning of fiscal year, the Revenue Division loads the Basic rate into STAR while the Regions load the remaining security costs.

- a. The Basic security charge covers such things as control center operations, criminal investigation, law enforcement and physical security services. Historically, the rate approved by OMB has been lower than actual costs. The basic rate is 18 cents per rentable square foot in FY2002 and 24 cents in FY2003.

The following table shows the trend of Basic Security Rates from FY1996 through FY2003. The FY2004* rate is projected

Year	Basic Rates		
	OMB Allowed	Actual Cost	Sq. Ft Measure
FY96	\$ 0.05	0.20	Usable
FY97	\$ 0.05	0.25	Usable
FY98	\$ 0.05	0.29	Usable
FY99	\$ 0.06	0.32	Usable
FY00	\$ 0.16	0.32	Usable
FY01	\$ 0.13	0.31	Rentable
FY02	\$ 0.18	0.30	Rentable
FY03	\$ 0.24	0.30	Rentable
FY04*	\$ 0.30	0.36	Rentable

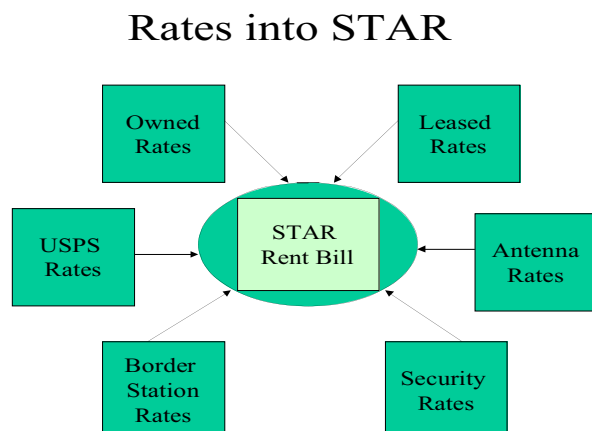
*Projected

b. The Building Specific Operating cost consists of charges for contract guard and other services directly related to the building in which a building Security Committee is active. This includes the cost of repairing and maintaining security systems. This cost is distributed to all the tenants in the building. Client building specific cost, which is above standard security services, which a tenant might request, will be recovered via Reimbursable Work Authorization (RWA).

c. Building Specific Amortized Capital is the amortization of the new/replacement capital equipment like magnetometers, x-ray machines, ion scanning /trace detection devices and extensive security measures such as blast mitigation, window glazing and progressive collapse.

The amortization rate for building specific capital expenditures is the same rate used by PBS for tenant improvements - the 10 year Federal Financing Bank rate, plus 12.5 basis points, which is the same rate used for amortizing tenant improvements.

The following table illustrates the flow of Rates into STAR



Operation Delegation:

Operation delegation is the amount credited each month (agreed upon at the beginning of each year) to agencies with PBS' delegated authority to perform specific services generally performed under PBS control, such as cleaning. The Regions enter the credits into STAR with approval from Office of Business Performance (PX). However, beginning in FY2002, single tenant leases will have no credit because PBS will not bill for operating expenses subject to the delegation. Beginning in FY2004, federally owned single tenant occupancy delegated buildings will follow the same practice. A committee has been set up to revisit the way PBS calculates delegation amounts for multi-tenant leases and government owned space.

Rent Guarantees:

One of the tenets of the PBS Pricing Policy currently in effect for federally owned space is that actual rates and total rent amounts for each Client Billing Record (CBR) are determined through an appraisal and memorialized in an Occupancy Agreement initiated at the time of initial assignment or at renewal. Thus, the rates used to generate the rent estimate for any given fiscal year are to be used billed for those CBRs in existence at the time the rent estimate was made and for which the assigned space and services remain unchanged. All other rates will be set to market at the time of space assignment. OMB agreed to this pricing policy provided that "PBS does not bill a bureau within an agency for more than what was originally budgeted for ..." Therefore, the PBS rent guarantee has been that, bills for an agency/bureau in government-owned space, which is continuously occupied from the time of receipt of the rent estimate through the end of the budget year, shell rent and operating costs will not exceed the total rent estimate at the agency/bureau level. Further, it is PBS policy to honor the appraised rental rates at the CBR level as well as at the agency/bureau level.

Parking Space:

The parking spaces per client billing record should be entered in STAR even if there is no cost associated with it. Parking rates should exist for all federally owned space, excluding some border stations. In most cases, leased parking costs are included in the square feet cost of the lease and are not billed separately. There are many exceptions to this rule, however, as many bill for assignments in leased buildings are determined by the cost per parking space.